

REVIEW OF THE ADMINISTRATION'S ENERGY PROPOSALS FOR THE TRANSPORTATION SECTOR

HEARING
BEFORE THE
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OF THE
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COMMERCE
HOUSE OF REPRESENTATIVES
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REVIEW OF THE ADMINISTRATION'S ENERGY PROPOSALS FOR THE TRANSPORTATION SECTOR

WEDNESDAY, FEBRUARY 28, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND AIR QUALITY,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2123 of the Rayburn House Office Building, Hon. Rick Boucher (chairman of the subcommittee) presiding.

Present: Representatives Butterfield, Markey, Wynn, Doyle, Harman, Gonzalez, Inslee, Baldwin, Matheson, Dingell (ex officio), Engel, Hastert, Upton, Shimkus, Shadegg, Pickering, Walden, Sullivan, Burgess, and Barton (ex officio).

OPENING STATEMENT OF HON. RICK BOUCHER, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

Mr. BOUCHER. This morning, we will be continuing our focus on the appropriate congressional response to climate change, with the first in what will be a series of hearings on the transportation sector.

Our subject today is the proposal by the administration for statutory authority to raise the Corporate Average Fuel Economy standard for passenger cars above the current standard of 27.5 miles per gallon.

The administration's proposal would also, for the first time, empower NHTSA to establish different fuel economy standards for different classes of passenger cars, and for the first time, establish fuel economy credit trading among auto manufacturers.

In the administration's view, as expressed by the President in his State of the Union Address, these far reaching CAFE changes would serve to reduce fuel consumption by the motoring public, and also address the challenge of climate change.

The administration's proposal has now been submitted to the committee as draft legislation. It raises fundamental questions which we will explore with our witnesses this morning. One obvious question is whether different fuel economy standards for different classes of passenger cars might create a perverse incentive for manufacturers to build more of the larger, less fuel-efficient vehicles, and correspondingly, fewer of the smaller, more efficient cars.

The draft asks for authority to distinguish categories of passenger cars for fuel economy purposes, based on attributes, but the term attributes is not defined. Characteristics of cars that affect fuel economy can vary widely, and so we are asking today what the word attribute means. Can the administration create greater definition of what it intends through the use of the word attributes.

The draft bill proposes a trading system for fuel economy credits, presumably akin to the trading system that is now in place for sulfur dioxide emissions, but there are major differences between electric utilities, that largely do not compete with each other, and the very highly competitive automobile industry, where depending on the circumstances, manufacturers might prefer to pay penalties for CAFE noncompliance rather than to purchase credits for fuel economy from a competitor that would involve giving revenue to that competitor. And we must ask whether there is any analysis showing that tradable fuel economy credits would actually save fuel.

I am also interested in the administration's view of how its CAFE proposal for passenger cars would fit within a framework of greenhouse gas control. Later this year, our subcommittee will process control program legislation to address the climate change challenge. I am interested in the views of the witnesses about whether the CAFE changes that are now before us would complement that effort, whether other kinds of CAFE changes would better achieve greenhouse gas reductions, or whether an entirely different approach would be preferable for the transportation sector component of greenhouse gas program controls.

I really don't anticipate that the witnesses will have complete answers to these climate change questions today, but I am outlining these questions in order to demonstrate our concern that we must view the CAFE proposal within that larger context.

So, I want to say welcome to the witnesses this morning. We appreciate your being with us and sharing your views, and before we turn to your statements, we will welcome opening statements by other members of the subcommittee.

Pursuant to the rules of the committee, any member who waives an opening statement will then have 3 minutes added to the time allotted to that member in order to ask questions.

This morning, I want to say a word of welcome to the ranking member of our subcommittee, and we are honored in this subcommittee to have as our ranking member Denny Hastert from Illinois, the former Speaker of the House of Representatives. Denny performed, I think tremendously well in his role as Speaker, and I believe, has the distinction of being the longest standing Republican Speaker of the House of Representatives in American history, and that is an enormous accomplishment, which demonstrates the merit with which he carried forward that work. Denny was not present for our first hearing. He is present today, and I want to welcome him to the subcommittee, and say how honored we are to have him serving in this position, and how much I personally look forward to working with him as we embark on the work of the 110th Congress.

And so, Denny, with those words of welcome, we would be glad to have your opening statement.

OPENING STATEMENT OF HON. J. DENNIS HASTERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. HASTERT. Well, thank you, Mr. Chairman, and thank you for your kindness.

Mr. Chairman, I appreciate you holding this important hearing. CAFE is back before this committee, this time as an administration proposal, part of the President's Twenty in Ten Initiative, with a goal of reducing U.S. gasoline usage by 20 percent in the next 10 years. While the goals of this proposal are laudable, we need more information as to how the details would work. The hearing will provide that.

Reducing gasoline consumption, in part by strengthening CAFE standards, addresses America's need for energy security, and must be part of our deliberations on energy and environmental policy. The CAFE bill that passed this committee last year, like today's administration bill, would have given the Department of Transportation authority to establish fuel economy standards for passenger cars on a model size by model size basis.

This approach to greater fuel efficiency is certainly as timely as ever. The administration's suggested 4 percent increase in fuel efficiency is controversial. Costs to automakers, the technologies involved, the questions regarding the market and consumer choice all require careful examination. The examination that this committee gave the question last year yielded a bill with excellent balance, in my view. Had we enacted it, the CAFE reform process would already be well underway, and we would have begun enjoying the fuel savings much sooner.

So now, we have some catching up to do. In the process, we will make certain that whatever we do, safety is not compromised. Sound science and economics would guide fuel economy standards, and the regulatory process will be open and fair. We cannot honor these values if we merely ratchet up the current passenger car fleet standards set in a law that—27.5 miles to the gallon. Arbitrary statutory increases do not take careful account of economic impact, job loss, technological advance, or consumer choice.

The key is the size-based standard embodies by both the administration bill before us and our bill last year. Automakers now face a fleet average standard, a standard based on vehicle dimensions will improve safety by eliminating the incentive for manufacturers to downsize vehicles, and by increasing incentives for technological improvements that will lower miles per gallon, and will make passenger cars safer.

I welcome our witnesses today and look forward to their testimony. Thank you, Mr. Chairman.

Mr. BOUCHER. I thank the gentleman, and now recognize the chairman of the full committee, the gentleman from Michigan, Mr. Dingell, for 5 minutes.

OPENING STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

The CHAIRMAN. Mr. Chairman, good morning, and good morning to everybody.

I want to thank you for holding today's hearing as a part of this committee's broad examination into climate change. I want to commend you for the very vigorous and energetic and thoughtful way in which you are conducting the business of this subcommittee.

I also want to welcome back our good friend, Mr. Hastert, and hope that his health is good, and say I look forward to working with him in the future, as we have in the past.

The Corporate Average Fuel Economy program originated in this committee. It was a response to the first oil crisis in the 1970's. Its primary objective was to reduce the Nation's consumption of imported oil by improving the fuel economy of light duty cars and trucks. The program has been remarkably successful, but there have been some shortcomings. Fuel economy today is double that of 30 years ago, in part, but only in part, because of CAFE.

The program's flaw is that it regulates what automakers are able to sell, not what they are technologically capable of producing. The consumer ultimately determines the average fuel economy of an automaker's fleet with what he or she actually buys, and that, of course, is in good part bottomed on individual choice.

The program is also designed to address challenges very different from those we face today, in a world that has changed dramatically. The issues have evolved, markets have evolved, technology has evolved, and almost always in ways not envisioned when we first wrote CAFE. I believe that, as you do, Mr. Chairman, it is time for a fresh look at the issue, and to seek answers to some of the questions now before us.

First is the existing system of regulating fuel economy in the most effective way to address the Nation's reliance on petroleum. Second, faced with conclusive evidence that the globe is warming, is the CAFE the best way to constrain greenhouse gas emissions from trucks and cars? Third, what if any alternatives merit our support?

I note that when Congress first required the Department of Transportation to set fuel economy standards, the science of global warming was in its infancy. We now know that greenhouse gas emissions are warming the Earth, with the potentially significant consequence to the environment. As motor vehicle use increases around the world, so does the need to address the corresponding increase of greenhouse gas emissions.

Fortunately, many vehicle and fuel technologies not envisioned 30 years ago are now available, and now viable in the marketplace. Consumers all across the country can purchase hybrid electric cars, or one that runs on biofuels. We are close, also, to developing the next generation of batteries, to making plug-in hybrid and electric vehicles available for purchase in the next few years. More efficient methods of production are making ethanol and other biofuels legitimate alternatives to petroleum and will also reduce and lower emissions of carbon dioxide.

A system to regulate fuel economy without considering the nature of fuel or the level of greenhouse gas emitted may not be adequate. Such a program may discourage the use of fuels that displace petroleum and emit fewer greenhouse gases, but which happen to contain less energy than petroleum. Energy security and global warming are real problems confronting the Nation and the

world. Solutions must account for technological advancements and their place in the global market.

Finally, we must note the competitive realities of what is a brutal global automobile market, and the disparate impact on American jobs that proposals might have. These are difficult questions, but they are questions that we will strive to answer. Although I am concerned with some aspects of the administration's CAFE proposal, I welcome its ideas, and look forward to working cooperatively with you and the other members of this subcommittee on these important matters.

The old debate is no longer sufficient. We should clearly identify the programs and the problems that we seek to bring forward, and to solve and consider comprehensive legislation that accounts for the new economic, political, and scientific realities of our time.

I thank you, Mr. Chairman, for recognizing me.

Mr. BOUCHER. Thank you, Chairman Dingell.

Now recognized is the ranking member of the full committee, the gentleman from Texas, Mr. Barton.

**OPENING STATEMENT OF HON. JOE BARTON, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS.**

Mr. BARTON. Thank you, Mr. Chairman. I, too, want to welcome our former Speaker and now member of this committee, and ranking member of this subcommittee, Denny Hastert, back to this important subcommittee. He couldn't have come back on the committee at a better time, given the sensitivity and the importance of some of the issues that this subcommittee and full committee are going to be addressing this year.

Last year, the full committee reported a CAFE bill, on a party line vote, 28 to 26. All the Republicans voted for it, all the Democrats voted against it. It is not the identical bill that the administration has put forward this year. This year's administration bill has a cap-and-trade system that is problematic, to say the least, but the majority in the last Congress did support giving the Secretary of Transportation the authority to explicitly set CAFE standards for cars, which would have given it the identical authority that the Secretary of Transportation has for light trucks.

Building on the successful reform of the light truck rule, I think it is important in this Congress that we do give such authority to the Secretary of Transportation, or consider statutory changes. As Chairman Dingell just said, the old debate won't suffice. What is in vogue this year, as we consider climate change issues, are various cap-and-trade proposals to control CO₂ and other greenhouse gases.

Now, one of the largest emitters, if not the largest emitter of greenhouse gas in the United States, are not smokestack emissions. It is tailpipe emissions. So, if we are going to have a debate about cap-and-trade, we are going to have to put tailpipe emissions on the table.

Now, I am, as the chairman and the subcommittee chairman well know, I am by no means an advocate of the cap-and-trade system, but if we are so enamored of cap-and-trade, everybody's trades and everybody's emissions should be included in the policy debate, so that we can get the most cost-effective and the most commonsense

type of proposal, if we are going to go down that road, and again, I am not saying that we should go down that road.

So, I am very excited to have this hearing today. I have a GM assembly plant in my district, in Arlington, Texas. That plant assembles the Chevrolet Tahoe, Cadillac Escalade, which are two of the larger SUVs in the GM product line. So, this is an issue that is not just generically interesting to me. It is an issue that is district-specific to me, and I am going to follow it very well.

And again, I supported the bill in the last Congress that passed this committee, but it didn't go to the floor, to give the Secretary explicit authority to set standards for cars like it has for trucks. So I am not opposed to some change in CAFE, but as we move down that road, it should be done very carefully, and hopefully, with bipartisan support.

With that, I yield back, Mr. Chairman.

Mr. BOUCHER. The Chair thanks the gentleman.

The gentleman from Massachusetts, Mr. Markey, for 3 minutes.

Mr. MARKEY. Mr. Chairman, if I pass now, the 3 minutes is added to the question period?

Mr. BOUCHER. That is correct.

Mr. MARKEY. Then I would like to pass.

Mr. BOUCHER. OK. The gentleman from Maryland.

Mr. BUTTERFIELD. I think that is a first, Mr. Chairman.

Mr. BOUCHER. Continuing on the Democratic side, the gentleman—

Mr. MARKEY. I didn't give them up, unfortunately for the witnesses.

Mr. BOUCHER. The gentleman from Maryland, Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman. I will pass.

Mr. BOUCHER. The gentle lady from California, Ms. Harman.

OPENING STATEMENT OF HON. JANE HARMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. HARMAN. Thank you, Mr. Chairman. As you know, it is a pleasure to be back on this committee, and I am very proud to be a member of the subcommittee.

When the CAFE program was started over 30 years ago, the challenge was to insulate ourselves from Middle East oil shocks. Who would have guessed that a new generation of lawmakers, and some oldies, would confront the same challenge today?

The security of our Nation's energy supply is fragile to the extreme. One need only watch the nightly news to witness the peril of oil dependent economy. Our transportation sector is a liability for our planet, too. The Pew Center on Global Climate Change recently reported that the U.S. transportation sector alone emits more CO₂ than the entire economy of any other country besides China, and China has four times as many people as we do.

In the 21st century, new technologies will revolutionize the way our economy runs, but not overnight. In the short term, energy efficiency is a must. Transportation accounts for nearly a third of our Nation's energy consumption, and that is why CAFE is so important. We need a long-term plan. Decades from now, cars and trucks on the road, assuming we have roads, must be far more efficient than they are today. But the technologies will not invent them-

selves. With coherent and consistent Federal policy and initiatives, which are strictly and fairly enforced, we can drive new technology to independence on foreign and to slow climate change. That is a win-win.

And it doesn't have to cost us jobs. Done right, savings from fuel costs and investment in technology will pay dividends in jobs and in economic growth, and the value to our national security will be priceless.

I look forward to the witnesses, and to asking some questions in my more limited time than Mr. Markey's. I yield back.

Mr. BOUCHER. Thank you, Ms. Harman. Mr. Upton for 3 minutes.

OPENING STATEMENT OF HON. FRED UPTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. UPTON. Well, thank you, Mr. Chairman.

I, too, want to welcome Speaker Hastert back to the subcommittee. I am sure that it comes as no surprise to anyone here that I am intensely interested in the automobile industry, because of its base in the State of Michigan and Midwest. In fact, I co-chair the Congressional Auto Caucus with my good friend Dale Kildee.

One of the concerns I have, though, is that when we talk about transportation and the use of fuel and production of emissions, we immediately focus on cars and light trucks, ignoring the fact that approximately 40 percent of the fuel consumption and emissions come from other transportation, such as heavy trucks, rail, air, even ships. If we are going to talk about global climate change, it doesn't make sense to not talk about the entire transportation industry.

In addition, I think we need to seriously look at the impact of this particular proposal to the automotive economy. And while I think that reform of the CAFE system could be productive, to make sure that we are using the right numbers and criteria for the program, I also believe that the proposed 4 percent rate of increase in the standard is not reasonable without huge costs on such a short timeline.

I have seen some estimated numbers on how much the President's proposal could cost both the auto industry, as well as the consumers, and I think those numbers are staggering. We are talking about an estimated \$100 billion in costs for manufacturers, \$100 billion, and for the consumer, possible price increases of up to \$2,000 per vehicle. It is imperative that, as this committee addresses climate change, that we do so not at the expense of the auto industry. We must take a reasoned, practical approach, examining all facets of our economy, including the transportation sector.

The U.S. auto industry is a loyal partner that can play truly a valuable role in pursuing a viable solution, but if we are reckless in our efforts, the consequences will be grave for auto manufacturing and manufacturing in general across the country.

And I yield back my time.

Mr. BOUCHER. The Chair thanks the gentleman. The gentleman from Illinois, Mr. Shimkus.

OPENING STATEMENT OF HON. JOHN SHIMKUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. SHIMKUS. Thank you, Mr. Chairman. I appreciate you holding this hearing.

This administration's bill is similar to the bill we passed last year, as has been stated, and the intent last year was to replace an out of date approach for the passenger car standards with a modern, flexible approach already adapted for non-passenger automobile standards.

And Chairman Dingell is right, and the old debate on CAFE standards is no longer sufficient, based upon a lot of things that were brought up in the current discussions. We ought to agree that there are variables that are important to us: safety, sound science, and economics that will guide fuel economy standards, and a regulatory process that is open and fair.

I think many of us would agree that the market demand ultimately could drive the need for higher CAFE standards, and I have said this numerous times in the committee process. What moves the consumer faster than the high cost of gasoline? And we have just seen over the past 6 months. Where gas prices were high, everybody was rushing to hybrids. Gas prices dropped off, hybrid sales declined. Gas prices are going back up, guess what? Hybrids are going to be back in again. And that is a lot faster than whatever we could do here in the public policy arena. Increasing fuel economy standards in passenger cars would be an added incentive for consumers in a world of high gases and foreign dependency, and potentially, even a reduction in greenhouse gases.

I hate this discussion about how much we drive in this country. When I was stationed in West Germany, I could drive across the entire country of West Germany in 2½ hours. I can't get to parts of my district in 2½ hours. To make a comparison about how much we drive, compared to how much Europeans drive, is a red herring. It is a terrible comparison, based upon the size of a country. And again, my colleague, Mr. Boucher, is bringing up the whole greenhouse gas debate. The election wasn't decided on global warming, but it is now the cause du jour of the new majority. And so, it is a cause du jour, it has to be part of this debate. And it has to be part of this debate, and as Mr. Upton said, in all the transportation arena. Let us reclaim some of our jurisdiction on the railroad issue by talking about miles per gallon used by the railroad industry and fuel usage. We are good at giving away jurisdiction. We are not very good at reclaiming jurisdiction, and I think this debate could be the arena by which we start doing that.

The other thing that is critical is looking at the hydrogen economy and new technology. Renewable fuels, coal to liquid, and the like, and science has to be a determinant factor on the next generation of fuels, which is the hydrogen economy.

Thank you, Mr. Chairman. My time has expired.

Mr. BOUCHER. The Chair thanks the gentleman. The gentleman from Pennsylvania, Mr. Doyle, for 3 minutes.

OPENING STATEMENT OF HON. MIKE DOYLE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. DOYLE. Thank you, Mr. Chairman.

Mr. Chairman, there are two things that I believe are uncontested facts when it comes to the question of breaking our reliance on foreign oil. The first is that American innovation is the only way to break the stranglehold, and the second is that American innovation needs a strong Federal funding commitment if it is going to achieve the lofty goals the President has declared.

Unfortunately, the President's budget continues his trend of identifying a problem, but not funding the solution. His Twenty in Ten proposal declares that new technology, coupled with higher production of alternative fuels, will reduce our gasoline consumption by 15 percent, while more flexibility under the current law will give him the final 5 percent. Yet he brings no new funding to the table to achieve this.

At a time when we spend more money in Iraq in 3 months than we spend on the entire Department of Energy for the year, I find it insulting to every member of this committee that he just continues to shift funds, instead of providing the seed money that American innovators need. It is time to call a spade a spade, so we can move past these shell game proposals, and move to create the framework under which American innovation can flourish.

Mr. Chairman, this policy is like we have seen year after year, all flash, no cash, it is time for this House to put our money where his mouth is.

And I yield back.

Mr. BOUCHER. The Chair thanks the gentleman, and recognizes the gentleman from Texas, Mr. Burgess, for 3 minutes.

OPENING STATEMENT OF HON. MICHAEL C. BURGESS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. BURGESS. Thank you, Mr. Chairman, and thank you for holding this hearing.

I haven't been shy in the past about making my position known that I believe our best bet to decrease the consumption of gasoline, at least over the short term, is to increase the number of hybrid cars on the road. I have owned a hybrid for now nearly 3 years, and I have logged a lot of miles across north Texas during that time, and although I bought the car because of concerns about air quality in our nonattainment area, when the gas prices got so high, I looked positively brilliant for making that purchase.

But we are here today to talk about CAFE standards. Hard to think about CAFE standards without visualizing a Yugo. I have got some serious reservation about the whole CAFE system. It forces manufacturers to make cars that no one wants. That is not good for the long-term viability of our auto manufacturers, and it does nothing to reduce energy consumption, and it certainly cripples innovation.

It is consumer demand and consumer choice that will ultimately determine the fuel economy of the vehicles that are actually on America's highways. Until consumers realize that there is a direct correlation between energy prices, dependence on foreign oil, and

their SUVs or other big gas consumers, we will simply not see a change in consumer habits.

Today, there are many more hybrids on the road than there were a year ago, which is more than there were on the road 5 years ago. The market has recognized this increase in demand, and now, there are even more models available to choose from, including for us down in Texas, our official car of Texas, the hybrid SUV.

The tax incentives for the purchase of hybrid and alternative fuel vehicles in the energy bill helped to encourage the purchase of more of these fuel-efficient cars, but the primary driver behind this trend is consumer demand. I would like to see this committee examine market-based alternatives to the CAFE system, but as long as we are functioning within that system, I believe that the Bush administration's vehicle class approach makes some sense, although I do have reservations about the workability of the credit trading proposal.

I would like to note that this proposal is very similar to legislation we considered in this committee during the 109th Congress under the leadership of then-chairman and now ranking member Joe Barton, and I look forward to hearing from our witnesses today on the proposal.

I yield back.

Mr. BOUCHER. The Chair thanks the gentleman, and recognizes, for 3 minutes, the gentlewoman from Wisconsin, Ms. Baldwin.

OPENING STATEMENT OF HON. TAMMY BALDWIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Ms. BALDWIN. Thank you, Mr. Chairman.

The tide has clearly begun to turn in our country, and we are thinking about how we, as Americans, can be more energy independent. We are becoming more conscious of the energy impact that each one of us makes, and we are just beginning to think about and discuss questions like what our Nation would look like in a post-petroleum era and economy. These conversations about our immediate and more distant future are important to have. What role will hydrogen, cellulosic ethanol, and carbon sequestration play in reducing our greenhouse gas emissions, and in helping us to meet our future energy needs? What investments in research need to be made so that the technology is available to make our country more energy independent?

The discussions about our future energy supply are important and necessary at this time, but we can also not lose sight of the steps that we can take in the here and now to lessen our energy use.

We can ensure that our appliances are the most energy-efficient possible, that products operating in standby mode are not wasting enormous amounts of energy, and that our cars and trucks operate with the best miles per gallon ratio possible. Unfortunately, this is where I believe we have failed the American consumers. We have not required that manufacturers take the most energy-efficient and technologically advanced products available. We have set standards that fall far below the levels that we are capable of achieving. Quite frankly, I think we have taken the easy way out.

Last year, the Department of Transportation did just this, in my opinion. We reformed the light truck CAFE program with rules that fall short if we are going to meet our most pressing energy needs. This rule completely excluded pickup trucks from increased fuel economy standards, and it only increased the fuel economy of SUVs and vans by a mere 1.8 miles per gallon over a 4-year period. They are minimal changes to say the least, and the technology exists for us to do far better.

Now, the Department of Transportation wants the authority to set fuel economy standards for passenger cars. The proposal will grant NHTSA authority similar to what it has for light trucks, but there is nothing in this proposal that requires NHTSA to make significant, meaningful steps that will truly make a difference in our fuel economy standards. In fact, there is nothing here before us to require NHTSA to act at all.

So, I am skeptical of the administration's motives in seeking the authority, of their desire to act, and of their interest in making real change, change that can be made now, rather than waiting for years to see where the research or technology will put us.

I hope that our witnesses will address some of my concerns today, and I am very much looking forward to hearing your testimony.

Thank you.

Mr. BOUCHER. Thank you. The gentleman from Oregon, Mr. Walden, for 3 minutes.

OPENING STATEMENT OF HON. GREG WALDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. WALDEN. Thank you, Mr. Chairman.

I will keep my remarks short, but I am really looking forward to this hearing. As somebody who represents a district that covers nearly 70,000 square miles, you can imagine my constituents spend a lot of time on the road, and they want to be able to drive vehicles that get the best mileage possible, while ensuring their safety and their ability to haul things that weigh a lot, like horses and cattle. And so, somewhere in this process, I hope we can continue to move forward on fuel efficiency in America's fleet, but do so in a way that provides them the horsepower they need and the safety they require.

I have been pleased with some of the initiatives from the administration, and a lot of the work out of this committee, where we have invested in new technologies that we know are going to be out there for us in the long term that can't be achieved immediately, like hydrogen fuel cell vehicles. There is a company in my district that has been on the forefront of hydrogen fuel cell technology development. I have met with them several times, and in fact, Jim Connaughton, and I toured him around that facility at one point. It is very impressive what America's professional engineers and scientists are doing to move us forward in new energy-efficient ways. We need a long-term look.

I think what this committee did and what this administration proposed, to put incentives in place, to encourage people to buy hybrid vehicles makes a lot of sense, and is having a dramatic effect in the marketplace. But even with those incentives, we don't see

an overwhelming consumer movement to them, even though the percentages are coming up.

So, I look forward to the discussion on CAFE standards. I look forward to the discussion on both short-term and long-term efforts we can continue to undertake to improve efficiency, to make America more energy independent, to develop new resources that reduce pollutants, and make America a better place. So I appreciate your initiatives, and I think you will see a lot out of this committee, as we have in the past.

So, thank you, Mr. Chairman. I appreciate the time.

Mr. BOUCHER. The Chair thanks the gentleman, and recognizes the vice chairman of this subcommittee, the gentleman from North Carolina, Mr. Butterfield.

OPENING STATEMENT OF HON. G. K. BUTTERFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. BUTTERFIELD. Mr. Chairman, I too thank you for convening this important hearing today, and you told us at the beginning of the 110th Congress that you were serious about creating good energy policy in this country, and I thank you very much for this hearing today.

There is no question, Mr. Chairman, that I am a supporter of increasing overall fuel economy of passenger vehicles and light trucks, as part of a larger solution to our Nation's growing emissions problems. I talk with members of this committee from time to time, and other Members of the House, and persons from the industry as well, and I believe that there is an intelligent, bipartisan way that we can resolve this issue.

I do not believe that the bill we will discuss here today is the best way, or the smartest way, to go forward. I have been surprised by the administration's approach to crafting this proposal, quite frankly. This is a serious matter that requires bipartisan serious thought and planning, but by all estimates that I have heard from the industry and from colleagues and agencies in our Government, there has been no recent analysis of whether the systems in this legislation will work, or if industry will have any impetus to abide by them. Frankly, I have seen no recent analysis that indicates that this approach will have any significant impact whatsoever.

So, I thank you, Mr. Chairman, for this hearing. I am going to do very little talking. I will let Mr. Markey and others do that, but I am going to do a lot of listening today.

I yield back.

Mr. BOUCHER. The Chair thanks the gentleman, and recognizes the gentleman from Arizona, Mr. Shadegg, for 3 minutes.

OPENING STATEMENT OF HON. JOHN B. SHADEGG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. SHADEGG. Thank you, Mr. Chairman, and I appreciate your holding this hearing. I will keep my remarks brief.

Let me simply say that I believe it is important to learn lessons from what we have done in the past, and I think those lessons indicate that whenever Congress gets down in the detail of setting specific standards, we discover that we make a mistake. When we set

broad, general standards, or when we give experts the discretion to set standards, such as the CAFE standards, it seems to me we enable the system to be flexible enough to work.

If you look at our experience in the past, when we have said specifically you must use certain specific oxygenates, we have created problems. On the other hand, if we say here is what you must do to clean the air, we succeed. So, I believe it is a mistake for the United States Congress to set the specific CAFE standard. I believe that is better delegated to expertise at the Government agencies involved, and not to have the Congress prescribe it.

And so, I hope that is the direction in which we move. They can evaluate all the different factors, then they can move, quite frankly, more quickly than we can. I believe that typically, when a Congress tries to set the standard, it cannot move quickly enough to match the science. So, I would urge us not to have the United States Congress specify a specific mileage standard under CAFE, but rather, to leave that authority where it can be adjusted most rapidly.

The second point I want to make is that I believe it is a grave error for us, and I disagree with the Bush administration on this issue, to quintuple or otherwise dramatically increase the ethanol mandate. I think we can already see a serious problem with the ethanol mandate that has been put in place. I met yesterday, I am sorry, day before yesterday, in Arizona, with executives in the food industry in Arizona, and they are telling me that because of the existing ethanol mandate, the price of corn has almost doubled across the country, driving up food prices in a variety of areas, and that unless we change agriculture policy, which might be a good idea, to allow more corn and other crops to go into production, the ethanol mandate is going to drive up the cost of food in this country quite dramatically, and that will have the greatest impact upon the poorest Americans. I think you can already see that in the crisis in Mexico, where the Government of Mexico has faced a revolt by the people, because of the increase in the cost of corn, and its ripple effect through the Mexican economy, and quite frankly, in the food supply in Mexico.

So, I would prefer to see us let the market decide what is the proper mix for alternative fuels. If, in fact, ethanol is the best alternative fuel at this point, so be it, but let the market dictate that. Earlier last year, I tried to suspend the excessive tariff on imported ethanol, because I believe that simply drove up the cost of gasoline at a time when gasoline in America was well over \$3 a gallon. I believe that we need to pursue alternative forms of energy, but having the Congress artificially decide which is the correct policy to do that, and that it is, in fact, corn, or ethanol based on corn, as opposed to, perhaps, ethanol based on other cellulose products, or alternatives to ethanol, again gets the Congress in the wrong position, and has ripple effects, including increasing the cost, for example, of food to America's poorest, and I don't think that is good public policy.

So, I look forward to hearing the witnesses' testimony, and appreciate your holding the hearing.

Mr. BOUCHER. The Chair thanks the gentleman and recognizes the gentleman from Washington State, Mr. Inslee, for 3 minutes.

OPENING STATEMENT OF HON. JAY INSLEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. INSLEE. I just want to dedicate my comments to my mom, who spent summers re-vegetating the Alpine Meadows up on the beautiful flanks of Mount Rainier, and she loved those meadows, and those meadows are going to disappear by the time her great-great-grandchildren are around, if we don't do something about global warming, because the tree line is rising, which squeezes out the meadows, and they are drying up, because of concerns about water in the summer, in Washington State.

And I think, in her memory, we need to do something to dramatically reduce the carbon emissions from our transportation fleet, and I think we need to start talking about a post-petroleum future for a significant part of our fleet, and unfortunately, I don't believe the existing CAFE system does that.

I would submit that if we are going to succeed in taming the beast of global warming, which I believe we will succeed in doing, we are going to have to structure incentives to the industry in policies that are fit for the post-petroleum age, and that means that we have to find a way to move to a system that is carbon emissions per mile, not just miles per gallon. In the world of cellulosic ethanol, and in the world of plug-in vehicles, and in the world of fuel cell vehicles, mileage, or miles per gallon is an artifact of the previous century.

And I do believe we should raise CAFE standards, to find a way to do that with our existing fleet, but we have to leapfrog this discussion. We have to leapfrog our transportation future into a post-petroleum situation. There is no way on this green Earth to cut our emissions 80 percent, which we and our kids are going to have to do to tame this beast, if we are driving cars based on petroleum. So, we are going to have to find a way and an incentive package to incentivize actions in the industry to move off of petroleum to other fuel sources.

Now, the good news is these are very close to commercialization. We had the GM Voltair, a pre-production car. Everything is stock on it, except the batteries, and A123 Battery Company has got lithium ion batteries that are powering our power tools today, and they are going to be ready in a few years with a commercial package where you can drive your car 20 to 40 miles, plug it in at night, and then run it on cellulosic ethanol, and get 100 miles a gallon on that.

So, I just think we need to think a lot bigger than we are thinking here on getting into these leapfrog technologies, and really revamping the system.

Thank you.

Mr. BOUCHER. The Chair thanks the gentleman, and recognizes the gentleman from Oklahoma, Mr. Sullivan.

OPENING STATEMENT OF HON. JOHN SULLIVAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKALHOMA

Mr. SULLIVAN. Thank you, Mr. Chairman.

It is great to be here. I think that as we go forward in this debate, we need to make sure that we look at everything, not just cer-

tain Band-Aid approaches to our energy policy in this country. And I think we need to look at each thing collectively, have a global approach to energy policy that we can make sure we do the right things, and make sure that jobs are still there, that we don't hurt certain people, certain sectors of the economy, and I think that is imperative as we go forward. We can't just have one thing. Like CAFE standards isn't going to do it all. We need to do a lot of things, and it seems to be a tendency in Washington to do like Band-Aid approaches to problems, and that will fix it.

I think this is a problem that requires a lot of debate, a lot of discussion, and we make sure that we make, we protect the economy as well, and we put ourselves at a disadvantage in the global economy.

Thank you.

Mr. BOUCHER. The Chair thanks the gentleman. That completes the opening statements, and the Chair now is pleased to welcome our two witnesses this morning, and I first would like to express appreciation for your patience, while we express our views on this very timely subject.

Today, we are joined by the Honorable Nicole Nason, the Administrator of the National Highway Traffic Safety Administration, an agency within the U.S. Department of Transportation. NHTSA regulates the safety and fuel economy of motor vehicles, and I am pleased the Administrator is here to assist the committee in its review of both CAFE standards and also climate change.

The Honorable Edward Lazear was sworn in as Chairman of the Council of Economic Advisers on February 27, 2006, so yesterday marks his 1-year anniversary as chairman, and we extend congratulations to him for completing his first year of service. He is on leave of absence from Stanford University, and has written or edited nine books, and published more than 100 papers. The committee welcomes his expertise in economics and policy, as it reviews the administration's transportation proposals.

Both of your prepared statements will be made a part of the record, and we would welcome your oral summaries of approximately 5 minutes, and Ms. Nason, we will be pleased to begin with you.

STATEMENT OF NICOLE NASON, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION

Ms. NASON. Good morning. Thank you, Mr. Chairman.

I am going to try to summarize my statement, to preserve my voice for questions and answers.

Let me thank you, Mr. Chairman, and the members of the committee for inviting us here today to discuss the Corporate Average Fuel Economy standard for passenger cars. I know that Chairman Lazear is going to speak more broadly about the President's Twenty in Ten proposal, so I will keep my remarks to the draft legislation that we provided to this committee a few weeks ago.

The Bush administration already has a history of reforming and improving fuel economy standards. Consider our record on light trucks, which comprise half of the vehicles sold today, as this committee knows. Members may recall that this administration has

raised the CAFE standards for light trucks for 7 consecutive years, from 2005 to 2011.

Our 2006 light truck rule will not only save a record amount of fuel, it regulated, for the first time, some of the heaviest light trucks. However, we believe the method by which these accomplishments were achieved is probably the most important. In its 2002 study on CAFE, the National Academy of Sciences found that while the CAFE program did fulfill its original goals, it contained flaws that were preventing the program from living up to its full potential.

For example, one of the NAS criticisms was that the program concentrated most of the regulatory requirements on a few full line manufacturers. This resulted in some manufacturers already above the standard not being required to make any further improvements in fuel efficiency. This means we are continuing to lose potential fuel efficiency in the fleet.

Next, the NAS estimated that CAFE had probably cost between 1,300 and 2,600 lives in one year alone, 1993, because the standards were structured in a way that enabled automakers to meet much of their compliance obligations by downsizing their vehicles. NHTSA carefully considered the NAS study, and methodically developed a new structure for light truck CAFE standards that addressed these criticisms.

This new system, which we call Reformed CAFE, is based on requiring automakers to improve fuel economy not by downsizing, but by adding fuel saving technologies. Basing CAFE on adding fuel saving technologies has a number of benefits.

First, by setting fuel economy targets for every size vehicle, instead of having one flat standard, every model of vehicle will potentially have to improve fuel economy. Reformed CAFE ensures that all vehicles, small, medium, or large, may become more fuel-efficient.

Second, under Reformed CAFE, there is no longer an incentive for automakers to improve their fleet by downsizing. By removing this incentive, we can raise the CAFE standard without decreasing safety.

Third, since Reformed CAFE demands greater fuel efficiency from every model of vehicle affected, every automaker will share the regulatory burden for improving fuel economy, not just a few. And finally, the administration's bill, draft bill contains a voluntary CAFE credit, a trading provision which could help alleviate regulatory costs for manufacturers.

Mr. Chairman, the President has stated his desire to raise the fuel economy standard. We are pleased to have a part in his Twenty in Ten proposal. We believe that having experts develop this standard, using sound science and data, in an open and reviewable rulemaking process, is the most responsible way to determine a new CAFE standard.

If Congress authorizes the Secretary to reform CAFE for passenger cars, we will immediately begin working on a rulemaking to boost passenger car fuel economy. And if the administration's draft legislation is enacted soon, cars rolling off the assembly line for the 2010 model year will have to meet a higher CAFE standard.

Mr. Chairman, given NHTSA's successful experience with setting the fuel economy standard for light trucks, we believe we have demonstrated our capability to set balanced standards for passenger vehicles, given the authority to do the reform.

Thank you, and I would be pleased to answer the committee's questions.

[The prepared statement of Ms. Nason appears at the conclusion of the hearing.]

Mr. BOUCHER. Thank you, Ms. Nason.

Mr. Lazear.

STATEMENT OF EDWARD P. LAZEAR, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. LAZEAR. Thank you. Good morning, Mr. Chairman, and members of the committee. Thank you for giving me the opportunity to be here to discuss the President's plan to enhance energy security.

The President's plan has four pillars. The first two pillars focus directly on the President's goal of reducing the use of gasoline in the United States by 20 percent in 10 years. First, the President has called for an increase in the supply of renewable and alternative fuels by setting a mandatory alternative fuels standard, to require 35 billion gallons of renewable and alternative fuels in 2017, which is nearly five times the current requirement for 2012. Approximately three-quarters of the targeted reduction in gasoline would come through the use of the alternative fuel standard.

Second, the President believes that we should reduce our demand for fuel by reforming and modernizing the Corporate Average Fuel Economy standards for cars. Changes to CAFE standards account for the remaining quarter of the saving necessary to meet the President's goal, potentially saving another 8.5 billion gallons by 2017.

Third, the President has proposed additional funding for energy innovation and technology, including bioenergy research and loan guarantees for cellulosic ethanol plants. Fourth, the President proposed doubling the capacity of the Strategic Petroleum Reserve to enhance our ability to deal with severe supply disruptions caused by natural disasters or a terrorist attack to the supply chain.

The President believes that bold steps are warranted. Improving our energy security is a goal on which we can all agree. To do this, he has outlined a variety of measures that will diversify our energy supply and increase energy efficiency. The Twenty in Ten plan was designed with these goals in mind.

Additionally, the plan undertakes to accomplish these goals in an environmentally sensible way. Most important, the President has made clear that we must accomplish these goals without damaging the American economy. This is foremost in his mind, especially because the market, unfettered by government, is the most effective driver of innovation, that strengthens energy security.

Changes in prices create the incentives necessary for scientists, farmers, industry leaders, and entrepreneurs to find the means to diversify our fuel supply and increase efficiency. As such, the President's policies, that he has proposed, while bold, are not Draconian. The proposals build on existing programs, and the reforms allow

for American companies to comply with the targets in ways that will not compromise their ability to compete internationally.

Two principles are important in evaluating these proposals: technology neutrality and flexibility. The President's alternative fuel proposal builds on existing renewable fuel standards to include virtually all alternative gasoline, alternatives to gasoline, rather than just renewable fuels. Additionally, there is flexibility embedded in both the alternative fuels standard and the CAFE proposal, so that significant distortions to the economy can be avoided.

The proposed alternative fuels standard includes two safety valves, one through administrative discretion, one automatic, that would limit the economic costs. Furthermore, there is discretion given to the Secretary of Transportation, who can alter CAFE targets in ways that are compatible with preserving safety, technological developments, and cost-benefit analysis. These provisions prevent a system on automatic pilot from taking us down unanticipated paths that are inconsistent with the goals we set. It means we can have an approach that is responsive, but one that is also consistent with economic realities. CAFE provisions also extend the existing credit framework, by allowing credits to be traded, granting manufacturers additional flexibility, and lowering their costs.

Finally, as my colleague, Nicole Nason, explained in her testimony, the President's call for an attribute-based CAFE system for cars would help address both safety and distributional concerns. By remaining open to new technologies and ensuring flexibility, the policies proposed by the President have the virtue that they cause minimal economic disruption, yet yield the promise of moving us toward a worthy goal.

I welcome your questions.

[The prepared statement of Mr. Lazear appears at the conclusion of the hearing.]

Mr. BOUCHER. Well, I want to say thank you to both of our witnesses for joining us this morning and sharing that information.

The proposal that has been sent to the committee now in draft legislative form breaks new ground in a couple of important ways. First of all, it for the first time would authorize the establishment of fuel economy standards for different classes passenger vehicles, rather than passenger vehicles as a single category. And secondly, it would for the first time establish a tradable fuel economy credit, and I have several questions I would like to propound about both of those proposed changes.

With regard to different fuel economy standards for different classes of passenger cars, some have suggested that if such a program were put into place, the incentive for manufacturers might be to create larger, less fuel-efficient vehicles, and perhaps fewer of the smaller, more efficient vehicles, with the result that you really wouldn't be achieving overall fuel savings.

Ms. Nason, would you care to respond to that?

Ms. NASON. Yes, thank you, Mr. Chairman.

We have heard the concern regarding upsizing, and when you set a class by class, an attribute-based system, you have targets for vehicles of a particular class. Size or weight is generally the attribute that most closely correlates with fuel efficiency. And that there could be an incentive, some believe, for manufacturers to look at

the targets for the higher, larger vehicles, and just decide that that is all they are going to make.

And I think I would respond to that in two ways. First, there is no incentive under Reformed CAFE to make large or medium or small. We deliberately preserve consumer choice by requiring technology improvements in all vehicle sizes, so that manufacturers can decide to make the products that they believe people want to buy.

If you are going to be required to have, say, a \$200 change in an engine, a technology improvement, it is going to be \$200 for that engine, notwithstanding what vehicle you might put that engine in, so there is no incentive that we see to upsize the vehicles.

And I guess the other point I would just make is one of practical market. We saw what happened last summer. Gas prices went up after Hurricane Katrina. The market for large vehicles plummeted almost overnight. There was a near 30 percent drop, and so, I don't think that it is in any manufacturer's best interest to decide that they are only going to make vehicles based on a particular CAFE standard. We have never seen that historically. That is not why people buy their vehicles, so we don't anticipate that as a real problem.

Mr. BOUCHER. You also have in your legislation this phrase attributes, and apparently attributes would be related to various characteristics of the automobile that would relate to fuel economy. Give me some indication of what you mean by attributes. That phrase is not defined, and it could be virtually anything.

Ms. NASON. Right.

Mr. BOUCHER. You know, how large the luggage rack is, or how heavy the mirror is. I mean, I think some added definition would be extremely important, if, in fact, this proposal were to move forward.

Ms. NASON. We did hear that complaint before, Mr. Chairman, and we agree. When we say attribute, we are using the National Academy of Sciences study, and an attribute-based system is one that most correlates with fuel efficiency, so size or weight. We would be pleased to work with you and this committee, if you think it would help us, to provide some clarity in that definition, as we move forward.

Mr. BOUCHER. Thank you for that.

Mr. Lazear, let me ask you about the trading program, which I believe you have some ownership of, actually, and perhaps patronage of.

Presumably, this is based on what has been a very successful experience in this country with SO₂ trading, which this committee originated as a part of the 1990 Clean Air Amendments. That program really has worked very well. But that is within the electric utility industry. These utilities, as a matter, a general matter, do not compete with each other. They are serving a certificated area, and each has his own, and so, there is probably not a lot of reluctance for competitive reasons for them to trade credits. That may account for the success of the program. But the automotive industry is highly competitive, and some have suggested that tradable credits would not work as well within a competitive industry, where those doing the trading are competitors each with the other.

What is your response to that?

Mr. LAZEAR. Thank you, Mr. Chairman.

I would say that the motivation behind this is based more on what I would think of as basic economic rationale than it is on comparison with any particular program per se. What we know is that giving people options is a good thing. It tends to increase flexibility, and reduce the cost of compliance with any particular program.

I think what the President is most concerned about is that he would like to move the energy agenda forward. He thinks energy security is important, but at the same time, is cognizant of the fact that we don't want to punish our automobile industry, and wants to do that in a way most compatible with minimizing economic costs.

We believe that giving companies the option to trade credits is one that is a good thing. It is good for the companies, and it is also good for the workers within those companies. Now, obviously, they don't have to exercise that option. They have the alternative option, under this plan, to simply pay a fee, exercise their right to go to the safety valve, and do that instead of trading, and in fact, if tradable credits were to rise in price up to that point, in fact, many would exercise that alternative.

So, we believe that this is just an additional alternative to reduce the cost of compliance.

Mr. BOUCHER. OK. Thank you. I have some additional questions, and we will have a second round of questions for our witnesses. I will defer those until later.

And I am pleased to recognize the gentleman from Illinois for his questions.

Mr. HASTERT. Thank you, Mr. Chairman.

Ms. Nason, let me ask you a question. When you get into fuel economy, you had \$11 billion over, in fuel savings, estimated in your light truck rulemaking. When you get into the situation of flex fuel automobiles, a lot of them are using 85 percent ethanol, for instance, and the ethanol mileage per gallon is not always as good as just pure gasoline, do you take into account the drop in miles per gallon, but yet, the emissions are low? How do you balance that out?

Ms. NASON. Thank you, Congressman Hastert, as you have noted, the use of E-85 is growing, and we have certainly seen some manufacturers make pledges that they will be doubling the amount of E-85 vehicles on the road.

When we calculate a CAFE standard, we take the tests that are done by EPA, EPA takes the vehicles, and they run the tests, and that is where a credit is applied for a flex fuel vehicle. Under current law, it is 0.9, it used to be 1.2, was the most you could get for a credit for flex fuel vehicles. So, EPA does take that into account when they do the test. And then, when the numbers are applied to NHTSA, and we make the determinations about whether you were over or under the standard, and whether or not you have met it, or there was a fee to be applied, that has already been taken into account by the EPA.

Mr. HASTERT. When you talk about the increase in manufacturers increasing the number of flex fuel automobiles, are you aware that Underwriters Laboratories, who have to test the pumps for li-

ability reasons, for people who distribute that fuel, are dragging their feet and not getting those tests done, so even though you have maybe twice as many flex fuel vehicles out there, the ability for independents, for instance, groceries stores, others, to buy the pumps to disperse the fuels, they can't do it. And so, you have, literally, a glitch in the system. Armed Services use E-85, a lot of other entities use E-85, but yet, when you have to sell it commercially, they can't do it. And this might be something that you want to look into, to urge the expedition of that.

When you were talking, as we said before, the new light truck rulemaking, it will result in a fuel savings of nearly 11 billion gallons over the life of the light trucks manufactured between 2008 and 2011, what kind of fuel savings do you look at, or guess that you might have, in the increase in passenger car fuel economy standards, according to this proposal?

Ms. NASON. We are basing our standard on the President's goal that he has set: 8.5 billion gallons of fuel saved in 2017, and the way that we get to that number is a goal of a 4 percent annual increase. I only stress that it is a goal, because we did not include it in the draft legislation, as you are aware, because we haven't done a full cost-benefit analysis with the best available data.

Mr. HASTERT. Mr. Lazear, the NAS has recommended the dual fleet rule be eliminated. Why doesn't your proposal contain such a provision?

Mr. LAZEAR. We believe that the way that we have set up the proposal right now guarantees the most flexibility and is consistent with neutrality, and what we mean by neutrality is that we make sure that we don't favor any one particular kind of technology over another.

Now, the one thing that we are doing, as my colleague has pointed out, is we do believe that attribute-based systems are important, in terms of guaranteeing safety, but we also want to ensure that consumer choice is protected, and that would be the main motivation, I would say.

Mr. HASTERT. Thank you.

And Ms. Nason, I do again repeat, we might want to look at what are the things holding up the ability of distribution of E-85. To double the number of vehicles won't do you any good, unless you can buy fuel.

Ms. NASON. Right. Yes, sir. Thank you.

Mr. HASTERT. Thank you. I yield back.

Mr. BOUCHER. Thank you, Mr. Hastert.

The gentleman from Michigan, Mr. Dingell, for 5 minutes.

The CHAIRMAN. Mr. Chairman, thank you.

Administrator Nason, I want to ask these questions to save the utmost amount of time, and if you can answer them with a yes or no, it would be very much appreciated.

Ms. NASON. Yes, sir.

The CHAIRMAN. The reformed light truck rule is not available for manufacturers until the bottom of the year 2008. Do we have any appreciation of how the CAFE system, the new one, will work on light trucks, and how it will perform?

Ms. NASON. Yes.

The CHAIRMAN. We do?

Ms. NASON. Yes.

The CHAIRMAN. We do have an idea? Have any studies been performed on this?

Ms. NASON. We have done our own analyses. I don't know that there is a study other than the National Academy of Sciences.

The CHAIRMAN. Would you submit to us, then, the work that has been done, so that we may know what you know about this particular matter, please?

Ms. NASON. Yes, sir.

The CHAIRMAN. Now, has NHTSA studied how a similar system might work on passenger cars?

Ms. NASON. We have, but I acknowledge it is based on old data.

The CHAIRMAN. It is based on old data?

Ms. NASON. Yes, sir. The best that we had, but several years old.

The CHAIRMAN. Now, has NHTSA studied how a similar system would affect passenger car safety?

Ms. NASON. No, sir. We have used the National Academy of Sciences report.

The CHAIRMAN. Now, has NHTSA studied what effect a similar system, if applied to passenger cars, would have on overall fuel consumption in the United States?

Ms. NASON. I don't know if studied would be the right word. Again, we have rough analyses, but they are based on—

The CHAIRMAN. Well, would you submit to us, first of all, the studies, and second of all, what information you have with regard to how this would affect fuel consumption in the United States, please?

Ms. NASON. Yes, sir.

The CHAIRMAN. Now, has NHTSA studied how the new structure would work with the existing requirement that manufacturers satisfy CAFE for both foreign and domestic fleets?

Ms. NASON. The National Academy of Sciences did look at that, sir.

The CHAIRMAN. You have studied that?

Ms. NASON. No, we are using NAS' work, Mr. Chairman.

The CHAIRMAN. I understand, then, you are telling me that you have not studied that.

Ms. NASON. No, sir. We are relying on the NAS study.

The CHAIRMAN. I am having trouble hearing, please.

Ms. NASON. I am sorry. We are relying on the NAS study. They did look at that, and so, we reviewed their work.

The CHAIRMAN. So, you have not studied this yourself.

Would you submit to us the basis upon which you have made any judgments on this matter, and any information that you have with regard to this matter, please?

Ms. NASON. Yes, Mr. Chairman.

The CHAIRMAN. Now, has NHTSA studied, and/or considered how it would preserve domestic production of small automobiles if it is granted this new authority?

Ms. NASON. We didn't propose any changes to the two fleet rule, Mr. Chairman.

The CHAIRMAN. I am sorry.

Ms. NASON. We have not proposed any changes to the two fleet rule, sir.

The CHAIRMAN. All right. Now, Dr. Lazear, has the administration conducted any independent analysis on CAFE trading, credit trading proposals?

Mr. LAZEAR. No independent analysis of it.

The CHAIRMAN. No independent analysis.

If manufacturers did trade credit, has the administration conducted an independent analysis that demonstrates how it would reduce overall fuel consumption in the United States?

Mr. LAZEAR. Not specifically.

The CHAIRMAN. So, then, we don't really know what it would do to reduce fuel consumption. Is that right?

Mr. LAZEAR. We don't know. We have a target, and our target would be implemented by the Department of Transportation.

The CHAIRMAN. So, we have a target, but we don't know how we are going to get there.

Mr. LAZEAR. Well, we know the method that we would use. The issue is we don't know the cost of technological change over time.

The CHAIRMAN. Well, for a hardheaded economist, Doctor, I must confess I am being driven to the conclusion that you probably are more suited to the clergy, because your faith and your hope appear to be more outstanding than the quality of your scientific work here.

Mr. LAZEAR. Well, I will let my colleagues comment on that.

The CHAIRMAN. The NAS study examined cap-and-trade system for carbon dioxide emissions. Does the administration support this kind of credit trading?

Mr. LAZEAR. Cap-and-trade. Right now, this is obviously being discussed in Congress. This is something that we are going to be seeing over the next year or so, and we are certainly going to be considering it.

The CHAIRMAN. Now, your very able predecessor, Mr. Mankiw, endorsed both a carbon and a gas tax in the Wall Street Journal on October 20, 2006. Has the administration considered supporting a tax on carbon or gasoline?

Mr. LAZEAR. We don't believe that a direct gasoline tax is the way to go. We believe that this particular proposal accomplishes the goals with less distortion, and keeps the money in the economy.

The CHAIRMAN. Thank you. Mr. Chairman, thank you for your kindness.

Mr. BOUCHER. Thank you, Chairman Dingell. The gentleman from Michigan, Mr. Upton, is recognized for 5 minutes.

Mr. UPTON. Well, thank you. I was wondering if my colleague from the great State of Michigan was going to change the old saying a wing and a prayer to a wheel and a prayer, based on his questions.

Ms. Nason, I had a question as it relates to your testimony. You said, on page third, since Reformed CAFE demands create fuel efficiency from every model of vehicle affected, every automaker will share the regulatory burden for improving fuel economy, not just a few.

And what brings that to my attention is the fact that, as we have heard from our manufacturers, particularly as it related to GM, they estimated that from the time period 2010 to 2017, the cost for them would be about \$40 billion, and at the same time, the esti-

mated impact on two of their key competitors, Toyota and Honda, is estimated to be \$8.4 billion and \$4 billion respectively, and I just want to know how that fits with your statement that they would all be affected. Surely, that would be the case, but at least on the surface, it doesn't seem like it would be anywhere close to equal. Would you concur?

Ms. NASON. Yes. I think our only point in suggesting a Reformed CAFE program, Congressman Upton, is that whether Congress chooses a number, an arbitrary increase, or the administration raises it, under a reform, everyone will be required to make some improvements. There may be some that have to make more than others.

Mr. UPTON. Well, in this case, it looks like it is to the neighborhood of perhaps as much as ten times as much.

Ms. NASON. Well, the estimates, again, were based on almost 5 year old data. We can't speak to GM's analysis, but—

Mr. UPTON. In the last truck CAFE rules issued by the administration, you found that the maximum feasible increase in the light truck CAFE standards for 2008 to 2011 model years would be an average of about 2 percent a year, and I think at the time, the administration further noted that increasing the rate any further than the 2 percent would impose costs that exceed benefits. I am just wondering if that was true about a year ago, why have you doubled the 2 percent to 4 percent?

Ms. NASON. Thank you, Congressman.

Mr. UPTON. And might know who suggested that you do that.

Ms. NASON. Well, again, 4 percent is a goal. It is a target. I don't know that we will get there, but we will certainly try. The President has made clear that this is a priority for him, and you are correct. We did get to 2 percent under light trucks. We are looking at passenger cars now, in the hope that we can have an even greater increase in passenger cars.

Mr. UPTON. Four percent for both, is it not? Did you not do 4 percent for both?

Ms. NASON. Four percent for both, but we would be starting light trucks several years, 2 years further out.

Mr. UPTON. Well. The other question that I had for you is, as I understand it, you all last week issued a request for product plan information from the automakers from 2010 to 2017, and my question is, if you didn't have such information on hand when you made this proposal, how is it that you ended up coming up with the numbers that you did?

Ms. NASON. Two points. The other point I was going to make, Congressman, is that we are proposing a rulemaking on the 4 percent issue, from 2010 to 2017. It would be a longer rulemaking, and it would be further out, a decade out, which is part of the reason why we thought we could still have net benefits at 4 percent.

We did ask for product plans, because of course, without the best available data, we are making rough estimates. We absolutely acknowledge that.

Mr. UPTON. Mr. Lazear, would you want to comment on any of those questions?

Mr. LAZEAR. I think my colleague handled it well, unless you want to follow up with anything specific. I am happy to answer your questions, but I thought she handled it.

Mr. UPTON. Well, thank you. Again, we all do care about fuel economy. I am in the market for a new vehicle, and one of the questions that I did ask was the fuel economy, it does have an impact on every purchaser, I think, that is out there. And I guess one of the things that I would like to see, as we see these improvements come, we do need some reforms, there is no question about that. They need to be appropriate ones. I don't just want to necessarily see all of the costs, total, be borne, perhaps, by the manufacturers, at a disparity of perhaps as much as tenfold between some of them.

And look forward to working with the chairman and others on the committee to, in fact, watch us move forward, and I yield back my time.

Mr. WYNN [presiding]. I thank the gentleman. It appears that I have taken the chair at an opportune time, because it is my turn for asking questions.

I am concerned about the notion of cost-benefit analysis, and exactly how it would work. And forgive me if you have covered this earlier, but I would like you to explain to me exactly how you are going to analyze cost, and I know there are some kind of traditional indicators you use, that the industry provides, lost jobs, and this sort of thing, but there are also is an element of benefit that I think is somewhat difficult to define, but very important, which is the quality of our air, the impact of reducing global warming, and if we don't have a real way to incorporate these hard to define values and benefits into this cost-benefit analysis, it seems to me that we are basically going to be operating off of kind of the old school model, and not adapting to the realities that have caused us concern.

So, could you talk a bit about how this cost-benefit analysis is going to be conducted, in the first instance, and secondarily, how you will include the broad societal benefits into the benefit side of the equation?

Ms. NASON. Yes, thank you, Congressman.

We are not proposing to jettison any of the restrictions that we have in current statute. We are asking for similar authority, which does require a cost-benefit analysis. Under the cost-benefit analysis, for example, for the light truck rule, we look at the costs of the technologies that we are applying. It is a cost to the manufacturers for the technologies that they have to put on their vehicles to improve the fuel efficiency.

The benefit side, as you said, gets more tricky. The vast majority of the benefits, in our analysis, is the benefits from gallons of gasoline saved. We can quantify that. There are other externalities. We look at benefits from a reduction of pollutants, NOx and Sox and VOC and lead, but the majority of the benefits does come from the gallons of gasoline that we are saving.

There are other benefits to increasing the CAFE standard, reduction of CO₂ emissions, for example, is one. We have heard from some that we should have quantified that. We can quantify it. We just can't monetize it, which has been the challenge, so that we can

say a reduction of 73 million metric tons of CO₂, the question is how do you apply a value to that, and so, in the end, applying a value to some of these more challenging concepts, as you said, hard to define, clean air, better environment, energy independence, it would be, I don't think it would be something that we would be able to value specifically in this rule. They are benefits.

Mr. WYNN. Well, thank you. That, I must acknowledge that is kind of troubling, because that is the whole point of why we are here, and without those kinds of values being taken into consideration and identified, we might end up, as I called old school, but it may be somewhat status quo.

The other question I wanted to ask you is whether, speaking of status quo, whether we might find ourselves in a situation in which we got no appreciably increase in fuel efficiency based on this cost-benefit analysis, which is to say, if you conclude that the new technologies would be too costly to implement on a particular model, or group of models, or group of classes, or whatever, that you would then take no action, or recommend only the slightest change.

I believe that is possible, perhaps even likely. Would you agree or disagree with that?

Ms. NASON. Well, I would disagree, Congressman, that we will see nothing. I think we feel fairly confident, even looking at some of the older data, that we can see an increase in fuel efficiency for manufacturers. The reason we asked for the flexibility, and the reason we didn't write 4 percent into our draft legislation, was so that we could do a full cost-benefit analysis, so we could look at what is technologically feasible and economically practicable, considering the need for the Nation to conserve energy.

We can look at the effect of other Federal motor vehicle standards on our rulemaking, all things we are required to do under the statute, and to make a determination about the best increase we could get. We do believe we will get an increase. I can commit to you we will raise the standard.

Mr. WYNN. By how much?

Ms. NASON. That is why we need to do the analysis.

Mr. WYNN. Right. I understand.

Let me turn to the cap-and-trade. There is some concern about how that would work and, again, if you covered it, I apologize, but this would seem to, well, perhaps it would be better, explain to me how this is going to work, because there are several different versions of it. I want to make sure that the penalties are sufficiently stiff to incentivize, if you will, fuel efficiency by the industry, and that the trading is actually practicable.

Ms. NASON. Yes, thank you, Congressman.

I wouldn't call it cap-and-trade. Someone said earlier, it was akin to cap-and-trade. It is a trading program. There wouldn't be a cap, though, in the same sense that you would see with a sulfur trading program, for example. We would actually encourage manufacturers who were at or a little above the fuel efficiency levels to do even more, because we believe it would provide an incentive in the marketplace for them to do better. They would have credits that they might be able to sell to other manufacturers.

Mr. WYNN. They are selling the credits for cash, is that what is going to happen?

Ms. NASON. Right. We would not be, we did not propose to set the price for a credit. We proposed to allow financial investors to be included in the market, as we noted earlier. It is a very small market. The manufacturers all know each other, and the reason that we included financial investors was so that we could hope to spur trade, maybe.

Mr. WYNN. So, they would have to basically give cash to a competitor?

Ms. NASON. Well, the idea would be they could sell credits to Merrill Lynch, just to pick—

Mr. WYNN. Well, the seller, I understand, but the buyer.

Ms. NASON. The buyer would presumably, let us just say Merrill Lynch, would go to a buyer, and say, hey, if you are interested, we have collected credits from, could be a variety of people, could be over a period of years, would you be interested?

Now, it is completely voluntary. We put it out there as an option for flexibility for the manufacturers. They have the option of meeting the CAFE standard.

Mr. WYNN. If they fail to meet the CAFE standard, and decline to, and are not able to purchase credits to offset their failure, what is the penalty?

Ms. NASON. There is fee, sir.

Mr. WYNN. What is the fee?

Ms. NASON. It is \$5.50 for every tenth of a mile times the number of vehicles produced by that manufacturer. It would be in the millions.

Mr. WYNN. Is that the same structure you have now for light trucks and SUVs?

Ms. NASON. Yes, sir. This is statutory.

Mr. WYNN. Have you given any consideration to increasing the fees as an incentive?

Ms. NASON. We have statutory authority to go up to \$10. We didn't propose that in our draft legislation. We would be open to discuss it.

Mr. WYNN. You didn't propose any increase, actually, in the draft legislation.

Ms. NASON. No. That is correct. Yes, sir.

Mr. WYNN. Does that reflect the decision that no increase ought to be made, or is it just kind of not an issue that was taken up?

Ms. NASON. It wasn't an issue that we addressed. We were looking at fuel savings issue. The fine or the fee is something we would be happy to discuss.

Mr. WYNN. I think the fee structure definitely needs to be considered, because that is integral to making this process work.

I see my time is up, and the next, I would like to recognize Mr. Shimkus for 5 minutes.

Mr. SHIMKUS. Thank you, Mr. Chairman, and it is a pleasure having you all here.

This is an important debate. This country still is probably predominantly a fossil fuel generated economy. And as much as we may not like it, that is a reality. So our effects on the use of fossil fuels will have a dramatic effect in the economy. The question is what we do now, and how do we bridge to the next generation, which a lot of us believe will be a hydrogen economy, and how do

we do that in a way in which we are not so disruptive of the economy that we never can afford the capital expenditures to get to the hydrogen economy?

So, having said that, Ms. Nason, this 2010, and it is 35 billion gallons, if I understand, in the testimony and questions, 8.5 by a modernized CAFE, and then 16.5 by a RFS alternative fuel definition. Is that correct?

Ms. LAZEAR. No, I am sorry. It is 8.5, the 8.5 is one quarter of the total of 35 billion, it comes from the AFS. That may be what you said.

Mr. SHIMKUS. Yes. What I am trying to do is, I have been following the fossil fuel debate here in this Congress so far, and I, one, we increased taxes on fossil fuels. We did not put the tax revenue generated to coal to liquid technologies. That wasn't allowed as an amendment on the floor.

We just had a science bill on the floor, a motion to recommit said let us have some of this technology go to coal to liquid technologies. That was defeated on the floor. I have a real skepticism that this new Democratic majority really is understanding the importance of fossil fuels in this country.

So, in this provision, and getting to meet the goals which we have laid out, or you have laid out, we have this 35 billion gallons, and we use the terminology alternative fuels. Could you give me the definition of that, alternative fuels?

Mr. LAZEAR. I can do it. We wanted to make that as broad as possible, and again, I think the reason for that is basic economic principles, which is that we don't want to pick the winners. We want the market to pick the winners. So, we want to allow for alternative fuels, hydrogen would be one, coal to liquid, as you mentioned, biodiesel, there are a number of alternatives, and frankly, we simply don't know where the technology is going to take us over the next few years, and we don't want to try to steer in a particular direction.

Mr. SHIMKUS. And I applaud that, because I, too, agree that is kind of where we have to go. In the energy bill that we passed, we had 7.5 billion gallon renewable fuel standard. It was not definitive. It has primarily been met by ethanol production, but of course, also being soybean area in the country, biodiesel has made great progress, especially the B20 mixture in diesel fuel has been very, very beneficial and supportive, and that is part of this whole RFS.

So, for my friends who are afraid that this is just a big ethanol push, that is not correct, especially if my friends on the other side would start opening up the public policy debate on coal to liquid applications, and coal to liquid debate, and it is my understanding that the alternative language here would include not only coal to liquid, but again, would help us bridge to the hydrogen economy. And that is really part of the debate on having a modernized CAFE system.

My good friend Denny Hastert talked about flex fuel vehicles. They are different. I have 22 fuel and filling stations in my district. You can go from Chicago to Kansas City now on all E-85. It is moving in the right direction. The automobile industry will eventually work on an engine that will have the same compression ratio,

so you will get the same, but when you are averaging 20 cents less a gallon, the miles per gallon drop-off is almost a wash.

So, I will end with, again, people have been trying to pin you down on this 4 percent, and if there is a numeric number assigned to this standard. Is there?

Ms. NASON. No, sir. The number we are using is 8.5 billion. That is the President's goal.

Mr. SHIMKUS. Thank you, and that is my time. I yield back.

Mr. HASTERT. Would the gentleman yield, if he still has some time?

Mr. SHIMKUS. I am out of time, Mr. Chairman.

Mr. BOUCHER. At this time, the Chair recognizes the gentlewoman from California, Ms. Harman, for 5 minutes.

Ms. HARMAN. Thank you, Mr. Chairman. My district is home to the North American Headquarters of Toyota and Honda, which build a few cars in this country, I think everyone has noticed, and have robust R&D facilities, and have, I think, of course, I am totally unbiased, been pushing technology because they have produced vehicles that have hybrid and various forms of clean engines, even without being required to do so.

And I just want to commend them for their forward leaning approach, and to say that I think we all can benefit from things that they have done, but also, things that we can do to set higher standards, so that everybody knows that in the future, the way we have produced cars engines, and the fuel efficiency of cars, has to change.

I would observe that this has been a kind of soft and fuzzy hearing, but I think there are tough questions that need to be asked, and so, in that spirit, let me just sort of waddle in.

As a friend of mine in this audience pointed out to me before the hearing started, NHTSA has authority right now to set higher CAFE standards. Is that true?

Ms. NASON. Yes.

Ms. HARMAN. So, I am not recommending this, but if you wanted to, you could, say, by X date, instead of the current CAFE standard we have, which was set in 1975, and I think everyone gets that, that was quite a long while ago, before half in this audience were born, instead of that standard, we could double that standard by a date certain. Is that right?

Ms. NASON. Yes. The Agency believes we have the authority to raise it. We just don't have the authority to reform the program.

Ms. HARMAN. You have the authority to raise the standard, but not reform the program.

Ms. NASON. Raise, absolutely.

Ms. HARMAN. Well, that strikes me as not an optimum situation. Obviously, I would suggest we have to reform the program as well. Would you agree with that?

Ms. NASON. Yes.

Ms. HARMAN. OK.

Ms. NASON. Completely.

Ms. HARMAN. And we have to take a look at all the loopholes, and the way we have treated different categories of vehicles differently, do we not?

Ms. NASON. Yes. That is an important issue.

Ms. HARMAN. OK. All right. But while I think these goals and attributes, and a bunch of kind of soft words are useful, when will NHTSA, or will NHTSA set a higher CAFE standard?

Ms. NASON. If we can have reform authority, we can have a rule-making out by, we would have to have it out for model year 2010 by next April 1. So, the end of next March. It would be very challenging, but we could do it, if we get the authority.

Ms. HARMAN. Well, I think the times we live in are very challenging, and I don't think we are the best body to set an arbitrary standard. I have held that view for many years. I think you are much better equipped, but I think the time for boldness is here, and we have heard discussion on both sides about new forms of engines and all kinds of things that are out there. I surely agree with statements that have been made that we shouldn't pick winners and losers, but if we don't have bold, tough standards out there, we are not going to drive change. Is that right?

Ms. NASON. We agree, Congresswoman. That is why we are proposing the authority, the reform authority. We agree.

Ms. HARMAN. Would you have any comment on this?

Mr. LAZEAR. No, I agree completely. I think the President's goal is to propose bold standards, and to do it in the way that is economically responsible. So, I think we agree completely with you.

Ms. HARMAN. Oh. Well, and let me second the point about economic responsibility. I think this can be a win-win, would you agree with that? If we do this right, but we have to do it, in my view, boldly, couldn't this be a win-win, because it creates huge opportunities for innovation, and they require human beings, well-trained human beings, to execute?

Mr. LAZEAR. Absolutely. We are betting on that.

Ms. HARMAN. OK. Well, that is very exciting. Let me just ask you about, let us see here. Governor Schwarzenegger, who was here yesterday, and who recently signed an executive order mandating a low carbon fuel standard, oh, I am almost out of time, and he, his point is that rather than setting fuel economy standards for automakers, this approach requires a maximum, a minimum 10 percent reduction in the carbon footprint of transportation fuels by 2020, and shifts some of the burden from automakers to fuel producers.

My time is up, but do you see this as a good complementary approach to reforming and increasing CAFE standards?

Ms. NASON. Yes. I believe even the manufacturers have said that they are pleased with the low carbon proposal by Governor Schwarzenegger.

Ms. HARMAN. Any comments?

Mr. LAZEAR. We believe that the President's proposal is a step in that direction. In fact, we believe that if these proposals are implemented, we will be successful in slowing and, perhaps, stopping the growth in carbon emissions, in that way.

Ms. HARMAN. Thank you. And thank you, Mr. Chairman, for indulging me.

Mr. BOUCHER. Thank you, Ms. Harman. Mr. Walden for 5 minutes.

Mr. WALDEN. Thank you, Mr. Chairman.

Before I get into CAFE standards, Mr. Lazear, you are Chairman of the Council, White House Council of Economic Advisers, right?

Mr. LAZEAR. Yes, sir.

Mr. WALDEN. Can you tell me what happened in the markets yesterday and why?

Mr. LAZEAR. There are a number of different factors. The story started with China, of course.

Mr. WALDEN. Right.

Mr. LAZEAR. But the phenomenon in China that triggered that event, at least to most analysts' view, was something having to do with their tax policy, taxes on profits, which was a rumor not substantiated.

The problem with that explanation is there is no obvious reason why that would then trigger the events in other countries, in fact, could even go the other way. So, we don't really know what happened.

I guess, let me just say one thing, first of all, that the Chinese market responded today by making up about half the gains, and our market is now up by about 99 points, so it looks like whatever happened yesterday was anomalous. These kinds of things are not unusual, and we just kind of write it off to one day's activity. We don't think of it as reflecting anything about the fundamentals in the economy, which I believe are quite strong.

Mr. WALDEN. So, you still believe the fundamentals are strong?

Mr. LAZEAR. Absolutely.

Mr. WALDEN. All right.

Mr. LAZEAR. The best evidence of that is the labor market.

Mr. WALDEN. That is the old journalist in me. I got the head of the White House Council of Economic Advisers here, and the biggest story in the world is the economy, and we are dancing around it. OK, thank you.

Ms. Nason, if Congress were to pass this bill today, does the technology exist to increase the fuel economy to a level greater than it is now, and if so, how much greater? I mean, this is the debate I get in in this building and back home, is how far can you go without reducing the safety standards, what is technologically possible, and what is the cost of that to consumers?

Ms. NASON. Right. Well, as the President has said, Congressman, this is a heavy technology bet. We do believe the technology exists, and I would note that the automotive manufacturing industry spends billions on R&D. When we say apply technologies, we do think there are fuel efficiencies to be gained still from the good old internal combustion engine, and improvements to the transmission, and aerodynamic drag and those things, but we would, to reach a goal of 4 percent, we certainly would be expecting a far greater market penetration of diesels, dieselization, hybridization.

Mr. WALDEN. All right. But dieselization, I remember reading something a year or two ago, about if we start to switch over to diesel, we are going to have a diesel supply issue in this country. If we try to mimic Europe, because we don't necessarily have access to that diesel right now. Is that accurate? What kind of supply issues will we face?

Ms. NASON. Well, we have, the situation compared to Europe. In Europe, nearly of the vehicles are diesel.

Mr. WALDEN. Right.

Ms. NASON. In the United States, it is a much smaller percentage, maybe 3 to 4 percent. The situation is the EPA's requirements, we have low sulfur, much cleaner diesel requirements, but we do think that we are in a position to, the manufacturers are in a position to make diesels that meet our requirements, and that we can get the fuel out there.

Mr. WALDEN. Is there refinery capacity, though, for that much diesel, if we make the kind of shift you are talking about?

Ms. NASON. Yes. Well, I shouldn't definitively answer that. We would certainly have to look at it. We are not talking about a market penetration of 50 percent.

Mr. WALDEN. Right.

Ms. NASON. The way you would see in Europe. It would still be 10 or 12, 15, we do think we have—

Mr. WALDEN. What is the market penetration right now of these flex fuel vehicles, and what we have done in terms of ethanol usage, do you know?

Ms. NASON. I don't know off the top of my head what percentage.

Mr. WALDEN. It is not huge, though.

Ms. NASON. No. It is small, and part of the problem, as Congressman Hastert noted, is E-85 available stations.

Mr. WALDEN. Right. There is probably single digits. Would that be—

Ms. NASON. Oh, yes.

Mr. WALDEN. OK. I look at that, and say, and I voted for some of that, and the subsidy we have is something like how much a gallon, 50 cents a gallon, that we are putting into ethanol?

Ms. NASON. Well, for the credit, they get a 0.9 miles per gallon credit. It does take more ethanol to fill—

Mr. WALDEN. Right, but we are subsidizing the ethanol industry through a direct tax provision, as I recall, or a direct subsidy.

Ms. NASON. Fifty-one cents.

Mr. WALDEN. I thought that was the number, and I guess I am looking, then, at the market disruption that is occurring if you are raising hogs or if you are raising beef cattle, trying to finish them off, and Mr. Lazear, can you talk to that at all? I mean, I want to be careful what we are doing, because we, I don't think most of us understood the unintended consequence that we are now finding ourselves in in the agriculture sector.

Mr. LAZEAR. There is no doubt that when we increase the demand for a particular factor for other uses, that is going to put pressure on prices. It does put upward pressure on prices.

That stimulates other actions, of course, as well, so we find different ways of producing corn, more efficient corn.

Mr. WALDEN. Sure.

Mr. LAZEAR. That has come about. We do believe that the technology will help us on that front. That said, that was one of the reasons that we think it is extremely important to have safety valves built into this program. One of the things that the safety valve does, particularly the alternative fuels mandate safety valve, what that would do is that would limit the amount by which corn prices could go up, because if ethanol prices get very, very high, you have an alternative. You can go use the safety valve, and that

limits the damage. And that is an important component of this plan, because again, we focused very heavily on thinking about the economic consequences of this, as we went through the strategy.

Mr. WALDEN. Very good. Thank you. Thank you, Mr. Chairman.

Mr. BOUCHER. And the Chair will recognize, I am sorry, Mr. Markey, for 8 minutes.

Mr. MARKEY. Thank you, Mr. Chairman, very much.

The United States went from importing 45 percent of our oil in 1995 to importing 60 percent of our oil in 2006. During that period, we had a Republican-controlled Congress, from 1995 to 2000, that actually put a law on the books which prohibited your agency, Ms. Nason, from even considering increasing the fuel economy standards in our country. And from 2001 through 2007, now, the Bush administration has not improved the fuel economy standards for automobiles in our country, 12 years, and we have gone from 45 percent of our oil imported to 60 percent of our oil imported.

Now, this is as we have 130,000 young men and women in Iraq, with a surge of an additional 20,000 men and women that is imminent. We have seen a corresponding surge in oil importation from overseas at the same time, \$300 billion worth of oil a year, we import into our country, much of it going into the hands of those who are actually funding al-Qaeda, funding terrorists. Plus an additional \$100 billion for our military to fight a war in Iraq.

So, for 12 years, the Republicans have stopped any improvement in fuel economy standards, and it is a national security disgrace. It has made our country so much more vulnerable than we should have been, that it is, in my opinion, the overarching issue of our time.

And it is also an environmental scandal, because of the dramatically increased greenhouse gases that we are sending out into the atmosphere, that is causing tremendous additional environmental and health problems for our planet. So, we are looking to you, Ms. Nason, and we are looking to you, Mr. Lazear, to help us to do something about this problem.

Ms. NASON, the President has called for a 4 percent increase in CAFE standards, but there is nothing in the Bush bill that I can find that actually mandates a 4 percent increase. Where is the 4 percent increase in the legislation which President Bush and Vice President Cheney have sent to this committee? Where is it?

Ms. NASON. That is correct, Congressman Markey.

The President has said 4 percent is a goal, but we have asked for flexibility in the legislation to do the cost-benefit—

Mr. MARKEY. So, there is no 4 percent, Ms. Nason. The President and Vice President are deliberately, once again, misleading the American people about his goals, in this critical national security area.

There is nothing in President Bush's bill that gives us any guarantee that there is going to be a 4 percent increase. It is a national security scandal. We cannot ask 150,000 young men and women to take on all of the terrorists and al-Qaeda in the world, and then back here—and a mandate, by the way, a mandate that the President continues to insist upon, that these soldiers and Marines have to keep going back over and over and over again, a mandate upon them. Well, where is the mandate in his legislation on the auto-

motive manufacturing industry, on the appliances industry, that will meet minimum security, national security standards?

There is no mandate on us, on us here at home. He is saying it is just going to be discretionary. That is a scandal, Ms. Nason. It is a scandal.

Let me ask you one quick question. Do you believe that the Ford Escape hybrid, which gets 32 miles per gallon in the city, and 29 on the highway, is less safe than a Ford Escape which gets 21 miles per gallon in the city, and 24 miles per gallon on the highway? Is it less safe?

Ms. NASON. No, sir.

Mr. MARKEY. It is not less safe, is it?

Ms. NASON. No.

Mr. MARKEY. No. So you can have a hybrid that improves the fuel economy by 40 percent without compromising safety at all. Is that not true?

Ms. NASON. Absolutely. It would still have to meet all of our safety standards.

Mr. MARKEY. But it does meet all of your safety standards. Is that correct?

Ms. NASON. Yes, sir.

Mr. MARKEY. OK. So, if we are, then, looking at these issues, where, why should we have any confidence in you? The National Academy of Sciences has already said in 2002 you could improve it 4 percent a year. It is 5 years later. And they said using existing technologies in 2002, and that did not include hybrids.

Why can't the President just say the words? We said it in 1975. President Ford signed a bill which doubled it from 13 miles per gallon to 27 miles per gallon. Do you know we went from 36 percent dependence to 26 percent dependence upon imported oil in that 10-year period? Do you know that, Ms. Nason?

Ms. NASON. I trust you, Congressman.

Mr. MARKEY. OK. Thank you.

Why won't the President make the same kind of statement, the same kind of mandate, given the national security crisis that our country is in on this oil dependency? Can you tell me that, Ms. Nason?

Ms. NASON. Yes, Congressman Markey. Last year, when we discussed this issue, there was a great reluctance in the, for lack of a better way to term it, the trust us message that NHTSA was putting forward. People were looking for numbers or percentage increases, and so, I don't think we could make a bigger commitment on behalf of the administration than having—

Mr. MARKEY. No, you are looking. Ms. Nason, you are looking—

Ms. NASON. The President speak—in the State of the Union—

Mr. MARKEY. Ms. Nason, you are looking for flexibility to do less than 4 percent. That is what you are asking the Congress to give you. You are asking for flexibility to do less. Less. Not more.

You are not saying you might do 5 percent or 6 percent, you are saying we might do 3 percent. We might do 2 percent. That is what I am hearing you and the President's Chief Economic Adviser saying. I am hearing economics. I am not hearing national security. I am not hearing national crisis. I am hearing we might do less.

It is not in the bill. It is just rhetoric, and it has been rhetoric for 12 years of Republicans, 12 years, and we are hearing just the same thing.

Finally. OK. Let me go to you, Mr. Lazear.

There is a law that was passed in 1978. That law imposed a gas guzzler tax on big automobiles in the United States. It is about \$1,000 a car. So, if you buy a big Chrysler that gets 20 miles a gallon, you pay an extra \$1,000. But that is not the majority of cars at all.

But if you bought an SUV that got 14 miles a gallon, you don't pay a gas guzzler tax at all. There is a loophole, and the loophole actually drives consumers to less efficient vehicles. That is the tax policy.

Don't you think that tax policy makes no sense, given the national security crisis facing our country?

Mr. LAZEAR. There are a number of ways to motivate consumers to choose more efficient cars. One is taxes, as you mentioned. The other is market prices. To my mind, most of the action that we see in the market is primarily driven by gasoline prices. So, if we look over time at the pattern of consumption, that seems to follow gasoline prices probably more closely than anything else.

Mr. MARKEY. So, you don't think this gas guzzler tax works at all.

Mr. LAZEAR. Oh, no, no. I didn't say that at all. No, no. Taxes surely work. All I said is—

Mr. MARKEY. But does it a factor in driving people to less efficient SUVs, because the automobile has an extra tax on it?

Mr. LAZEAR. When there is a tax on it, that discourages use of that car. When there is no tax on it, it doesn't discourage use.

Mr. MARKEY. Should there be a tax—

Mr. BOUCHER. Mr. Markey, your time has expired, and with that particular answer—

Mr. MARKEY. He is not answering my question. I want to know if there should be a tax exemption for SUVs. Would you answer that, sir?

Mr. BOUCHER. Time is expired. I think he attempted to answer. We have to live with his response.

Mr. MARKEY. He did not answer yes or no. He gave me an economist's answer, not a yes or no. Should there be an exemption, sir, for the SUV?

Mr. BOUCHER. Mr. Markey, your time is up, and I am going to be recognizing the ranking member of the full committee, Mr. Barton.

Mr. BARTON. OK. Thank you. Thank you.

It is a terrible thing when you don't answer a question like a Congressman wants it answered. I mean, it just, we ought to make that unconstitutional. Give him the answer he wants, not the answer you think is correct, and that way, we can all go have lunch, and not have indigestion, and life will go on.

Now, Mr. Markey just, in his usual entertaining style, has given both his monologue and asked his questions. I used to enjoy them when I knew I had the votes. They are not quite as enjoyable now that he may have the votes. We will see.

But I think, to be fair, we need to point out that he has never voted for ANWR, he has never voted for extended drilling in the OCS. He didn't vote yes on the CAFE bill that passed this committee. His amendment to increase CAFE has failed every time in this committee that it has come up for a vote, and every time on the House floor. It is a little bit disingenuous for my good friend to be sitting here, tongue-lashing these two distinguished witnesses, when he has certainly not been a part of any solution efforts that have become law.

Now, we can disagree, but I have had extended private discussions with my good friend about trying to get a CAFE increase in exchange for ANWR, so you get a production and a conservation. So far, he has said no on that, so I think it is a little unfair to insinuate that it is all the fault of these two witnesses, or the Bush administration, that we haven't done anything.

His conclusion is correct. CAFE has not gone up. That is a correct conclusion. But it is not because good people on both sides of the issue haven't tried in some way to find a consensus solution.

So, I just want to put that on the record.

My first question, I guess it would be to the economic advisor, do you know what percent of the greenhouse gas is emitted by humans in the United States is because of tailpipe emissions, as opposed to stationary source emissions?

Ms. LAZEAR. Thirty percent is the number.

Mr. BARTON. Thirty percent?

Mr. LAZEAR. Thirty percent, sir.

Mr. BARTON. OK.

Mr. LAZEAR. Yes.

Mr. BARTON. So, on the larger question that Chairman Boucher was asking, if we consider a cap-and-trade system for stationary sources, should we consider a cap-and-trade system for mobile sources of greenhouse gas emissions in the United States?

Mr. LAZEAR. Go ahead.

Ms. NASON. I guess there are two ways to answer that. First, we have proposed a tradable credit system. We have not proposed a cap-and-trade for CAFE legislation, just on CO₂ emissions, as I noted earlier. We have had difficulty with even monetizing CO₂ emissions. We can tell you the reduction, but to monetize that value is very challenging, and we haven't seen any consensus in the scientific data.

Mr. BARTON. Well, I am not an advocate of a cap-and-trade system, so I am just saying that those that are, if 30 percent of our human emissions in the United States are tailpipe, our mobile source emissions, and we are going to do cap-and-trade, I would think that 30 percent of the problem ought to be 30 percent of the solution, and my hunch is that the proponents of cap-and-trade don't want to look at mobile sources with the same scrutiny that they want to look at stationary sources.

In the Energy Policy Act of 2005, Section 773 has a study of the feasibility and effects of reducing the use of fuel in automobiles, basically to see if there is not some alternative to the current CAFE system. Can you tell me, Ms. Nason, if that study was conducted, and if it was, what the results are of it? And if you need to get back to me, I am fine.

Ms. NASON. They have to get to Congressman Harman's point. I was alive in 1975.

Mr. BARTON. No, no. This is 2005.

Ms. NASON. But I was alive.

Mr. BARTON. This is 2005.

Ms. NASON. Oh, yes.

Mr. BARTON. This is 2 years ago, OK?

Ms. NASON. I am sorry. I thought you meant in the original statutes.

Mr. BARTON. No.

Ms. NASON. Yes, actually. We have, and we can provide you with that information.

Mr. BARTON. So, you have done the study?

Ms. NASON. Yes.

Mr. BARTON. OK. And you can give us the result. Do you happen to know off the top of your staff's head what the results of that study are?

Ms. NASON. Our conclusions were, not surprisingly, Congressman, that we would like to increase and reform the passenger car CAFE.

Mr. BARTON. My time has expired, Mr. Chairman.

Mr. BOUCHER. Thank you very much, and the Chair will recognize the gentleman from Utah, Mr. Matheson, for 8 minutes.

Mr. MATHESON. Thank you, Mr. Chairman.

Ms. Nason, in your testimony, you did make reference to the National Academy of Sciences study.

Ms. NASON. Yes.

Mr. MATHESON. And I was wondering if you could expand on what you, how you used that study to come up with your proposal for the Reformed CAFE.

Ms. NASON. Thank you, Congressman. The National Academy of Sciences looked at a variety of options for reforming the CAFE program, and one of their findings was that an attribute-based system, and when we say attribute, we mean size or weight, was a way to reform the program, to still gain fuel efficiency, in making improvements and raising the CAFE standard, without sacrificing safety.

One of the concerns the National Academy of Sciences raised is that the least expensive way for a manufacturer to meet a higher CAFE standard would be to simply downsize to make smaller, many more smaller vehicles, which exacerbate the problem we have right now between compatibility of large and small.

So, when we looked at that study, we wanted to make sure that as we reform the proposal, we don't sacrifice safety, which is something NAS was very strong on, but we still gain the fuel efficiencies from all of the manufacturers, whether they are above or below an arbitrary number. So, we think reform, with an increased stringency, is the most responsible way to go.

Mr. MATHESON. It is also my understanding that in that study, it was determined that existing technologies, and it assumed a gas price of around \$1.50, that there was opportunity for substantial savings over a 10-year timeframe.

Did you incorporate that into your proposals? I have heard this 4 percent number bandied about, that that was 4 percent total. I think the National Academy had a far more aggressive projected

capability for fuel savings. How did you respond to what the National Academy said there? And that was technology of 5 years ago.

Ms. NASON. Right. The 4 percent that we are proposing as a goal is a 4 percent year over year increase, so it is, we believe, extremely aggressive.

Mr. MATHESON. So, that is an annual increase.

Ms. NASON. Oh, yes.

Mr. MATHESON. I am not sure that was clear, as the committee was discussing that. OK.

Ms. NASON. Oh, I apologize. It is a very aggressive goal.

Mr. MATHESON. Let me ask you. In your testimony, you talked about your Reformed CAFE proposal, and you want to do it by, you said in the previous CAFE effort, a lot of it was accomplished by downsizing the vehicles, or vehicle weight, and now, the Reformed CAFE will look at adding fuel saving technology as a way to achieve savings.

When you are going to do your rulemaking, and when you anticipate setting your rules, how are you going to determine what is possible? How are you going to decide what fuel saving technologies are out there?

Ms. NASON. Thank you, Congressman.

We used the list that the National Academy of Sciences looked at, and we add technologies until costs and benefits are level.

Mr. MATHESON. How are you going to do that going forward? How are you going to do this if you set these rules for 2010 or whatever?

Ms. NASON. Right, for up 2017.

Mr. MATHESON. Yes.

Ms. NASON. You mean, is it possible that the technologies will outpace—

Mr. MATHESON. Yes, I want to know how you are going to assemble what the world of possible technologies are, and how you are going to come up with setting these standards accordingly.

Ms. NASON. Right.

Mr. MATHESON. And the follow-up question, which I will just throw in right now, is let us say you do it now, the rulemaking.

Ms. NASON. Yes.

Mr. MATHESON. And then, 3 years later, new technologies come out. Are you going to reopen the rule, or how are you going to accommodate technological change over time?

Ms. NASON. Right. Those are excellent questions, and we are struggling with some of those. The National Academy of Sciences actually proposes a list, from very small changes, low friction, high viscosity oils, for example, to direct injection engines. And so, we would start with changes to the internal combustion engine, based on the manufacturer's product plans.

What we would be required to do, under reform, is to find a technologically feasible way for a manufacturer to get to, let us say we can reach 4 percent, a 4 percent annual increase. Now, a manufacturer may look at our list and say we don't want to go with a five speed or six speed transmission. We don't want to use the technologies that you are applying. We want to go straight to hybrids or diesels. That would be their alternative.

One of our basic tenets is that we are technology neutral. We allow the manufacturers, we create a path to show that it is feasible, but we allow them to decide whether or not they want to take their own path.

The point of your second question is you are correct. When NAS was first looking at this list, the far end of technologies, hybridization and dieselization, and we obviously, I think there were one or two vehicles on the market at the time that were hybrids, and so, we have seen an increase, obviously, in those technologies. One of the things we are doing right now is working with the National Academy of Sciences to update the list, because we do need to go beyond hybrids and diesels, and to consider some of the research that manufacturers are doing. They are going to be getting ahead of us, so we do need to update the list. We agree with you.

Mr. MATHESON. See, I think you are in a bind when you say you want to be technologically neutral. We all think that letting the marketplace decide is a good bias to have, and yet, you are going to be making decisions based on your understanding of what technologies are when you go out and set these standards, so by definition, you are picking available technologies, at least from your perspective, at least through your rulemaking.

Ms. NASON. Well, again, we choose, we have to demonstrate, by statute, that it is technologically feasible, but a manufacturer does not, in any way, have to use any of our technologies. They can determine that they can get to 4 percent through a different path, and there is nothing in our rulemaking that would prohibit them from using their own technologies, and looking at their own product plans, and deciding we want to make a heavy investment into diesels, for example, even if we don't propose a greater penetration in the fleet of dieselization, they could, an individual manufacturer could.

We could get to a point in 2017, or maybe beyond, where we will need to update the technology list, which is why we are starting that work right now with NAS, but we do think there are significant gains that we can make, both with improvements to engines and transmissions right now, and adding, acknowledging that we would be adding higher end, better fuel efficiency, but more costly technologies like dieselization and hybridization.

Mr. MATHESON. And you have the flexibility, just to repeat, let us say, 5 years from now, some new technology comes up you didn't know about, you have the flexibility to go in and change it, then.

Ms. NASON. Yes, again. We don't dictate in any way the technology. We demonstrate that it is possible.

Mr. MATHESON. No, but to change your potential standards, though. Let us say a new technology comes up, and you can say wait a minute, whatever rulemaking we did when we set this as our fuel economy standard, attribute-based or however it would be set up, what if something happens where you say wait a minute, we can suddenly do a lot better? Do you have the flexibility to go in and change it then?

Ms. NASON. Well, it would depend on Congress giving us the flexibility to do the reform program the way we would like to reform CAFE, but yes, with our light trucks, for example, we believe that we can continually allow for different technologies to be used

in the marketplace, and that is a very important basic tenet of our proposal.

Mr. MATHESON. One last question, and it is going to move just a little bit off of CAFE, because CAFE talks about new vehicles coming out on the market, but I read last week the same thing I read probably 10 or 15 years ago, which said it is the 10/50 rule, that 10 percent of the vehicles on the road account for 50 percent of the emissions that exist in our country from vehicles, and I heard that 15 years ago about, and I heard it last week again.

Is that true, and if we want to talk about carbon emissions and whatnot, should we be looking, and I know this is getting off of your topic, what with the CAFE, but should we, have you been looking at that issue? Is that still true, where a certain small percentage of older vehicles on the road create a disproportionate impact, in terms of carbon emissions in our atmosphere?

Ms. NASON. Thank you, Congressman. One of the things that we received some criticism for, for example, in our light truck rule, is that we made estimates about percentage of vehicles that were still on the road 30 or 35 years later, and people were critical that we were allowing vehicles to stay on the road for 30 years. We have to make those estimates. It is maybe 2 percent would be our number of vehicles on the road, but there are people who keep their cars and trucks for a long, long time, and we do have to account for that in our rulemaking.

So, that is something that we are aware of, and we do try to take into account, even as we are asking for an increase, and higher fuel efficiency, we do have to take into account that there are people who keep their vehicles for decades.

Mr. BOUCHER. Thank you, Mr. Matheson.

Mr. MATHESON. Thank you.

Mr. BOUCHER. And the Chair now recognizes the gentleman from Oklahoma, Mr. Sullivan, for 5 minutes.

Mr. SULLIVAN. Thank you, Mr. Chairman. I have learned a lot today. It is a good meeting, but one thing I, you are talking about technologies, and I think the technology, he was talking about that, would change, I am sure you would adjust if they came up with a carburetor, for example, that would save a lot of mileage, you would probably look at that.

But one thing—I have four kids, and one thing I am concerned about is safety. And I think you can achieve some of these efficiencies through technology that wouldn't change the weight or structure of the car, but I think there does come a point where you do have to change, manufacturers would, the structure of the car, or the weight, and do you know, have you done an analysis on how many lives would be lost achieving these fuel efficiency standards?

Ms. NASON. Yes, thank you, Congressman. We have, actually, a very clear analysis through the National Academy of Sciences, that under CAFE, current CAFE structure, the unreformed structure, as I noted in my opening testimony, up to 2,300 lives could be lost, this was their estimate, between 1,600 and 2,300 in 1993, they looked at that one year alone, because the least expensive way to meet CAFE standards is to downsize the vehicles. Now, that doesn't necessarily mean that small vehicles aren't safe and large

vehicles are safe. It just exacerbates the problem that we currently have between compatibility of large and small.

That is something that we are very concerned about, and we looked very carefully at those provisions in the National Academy of Sciences study, when we proposed our Reformed CAFE structure, because we do not want to have any negative impact on safety, and the safety penalty, that is the NAS term, not mine, the safety penalty is something that we want to look at, and we have looked at very carefully, which is why when we talk about reforming CAFE, we talk about it in two separate pieces, changing the program, and increasing the stringency. We want to make sure that we look at both carefully, so that we do not have any negative impact on safety.

Mr. SULLIVAN. Do you analyze any type of crash tests, or anything like that? Do you do those?

Ms. NASON. Yes.

Mr. SULLIVAN. OK.

Ms. NASON. Every day.

Mr. SULLIVAN. And let us say they are achieving a certain level, you take that car, and you would have the crash test, and you would see exactly the impact data and all of that, that would potentially kill people?

Ms. NASON. Yes. We would not permit a manufacturer to make a change to a vehicle that makes it much more fuel-efficient, but then, it doesn't pass all of the Federal motor vehicle safety standards. Any vehicle that is being sold on the road needs to pass all of our safety requirements in addition to being more fuel-efficient. That is why we have noted that a 4 percent annual increase would be very challenging for the manufacturers, because they still have all of the other standards that they are required to meet. But that is our goal.

Mr. SULLIVAN. What percentage do you think they could achieve in the short term without jeopardizing any safety?

Ms. NASON. Well, we think, for example, when we looked at the product plans from several years ago for the light truck rule, we had it 2 percent, end over end, annual increase. We actually think that can be higher, but as was noted earlier, we have requested the product plans from the manufacturers. We look at their confidential product plans—we don't share this with other manufacturers and we don't share it with the public—to determine where they are making their investments, and to make sure that there is no potential impact on safety.

Mr. SULLIVAN. Thank you.

Ms. NASON. Thank you.

Mr. BOUCHER. The Chair now recognizes the gentleman from Texas, Mr. Gonzalez, for 8 minutes.

Mr. GONZALEZ. Thank you very much, Mr. Chairman. Welcome back, Administrator Nason. It is good to see you.

Ms. NASON. Thank you.

Mr. GONZALEZ. I think we can have disagreements once in a while, but I think everyone admires the enthusiasm and the knowledge that you bring to your job.

I want to touch on, I guess, some fundamentals that I think I have an understanding of them, and maybe, they pretty well estab-

lish where we go in the future. Because you are building on these particular fundamentals.

And the first one is the classification of vehicles. What we are discussing today are passenger vehicles, but the very definition of them may not, may be more of a fiction than anything else. My understanding that under light trucks come SUVs, crossovers, and minivans. Do you know what percentage of Americans today actually use what type of vehicle to carry passengers?

Ms. NASON. Yes. Good morning, Congressman. Thank you.

It is nearly half. It is almost an even split for the way we classify between light trucks and passenger cars, and back when CAFE was first created, it was 20 percent less, and 20 percent were in light trucks, nearly all Americans were in passenger cars.

Mr. GONZALEZ. Well, policy may have driven manufacturers a certain way, and I mean, I think that is really the obvious thing, because if you don't have stringent CAFE standards, and also, let me ask you, do you have different emission standards depending on the classification of the vehicle? Let us say everything that comes under a light truck as opposed to a passenger vehicle? Are they the same?

Ms. NASON. We don't set emissions standards at NHTSA, Congressman. That's the EPA's role.

Mr. GONZALEZ. No, but I understand that. But I am saying that there are certain advantages to maybe promote, build, manufacture, and so on, vehicles that are not subject to as stringent standards, whether it be CAFE standards or emissions. Would you agree?

Ms. NASON. Oh. Well, you mean, incentives for manufacturers to build them? Incentives for manufacturers to build them?

Mr. GONZALEZ. Wouldn't you say that is more of an incentive? And this is all history.

Ms. NASON. Right.

Mr. GONZALEZ. You weren't around, as I heard a minute ago, back then. Unfortunately, I was not just around, I had been around for a while. But what I am saying is, right now, as you speak, what you are addressing here are passenger vehicles, which is really half of the equation maybe.

Ms. NASON. Right.

Mr. GONZALEZ. And increasing numbers are on that other part of the equation, light trucks. You have the authority, we don't have any question about whether the Supreme Court is right or wrong, da da da, you are moving forward on that.

Ms. NASON. Right. We are moving forward on the trucks.

Mr. GONZALEZ. Where do you make the most difference in the shortest period of time, when you look at what the President is attempting to achieve on alternatives, gas mileage, savings, all of it, do you do it with the subject we discussed today, passenger vehicles, or more accurately, do you do it under the category of what we refer to as light trucks?

Ms. NASON. Oh, absolutely, Congressman. We still think there are gains, tremendous gains to be made in the light truck category as well. It is part of our proposal.

Mr. GONZALEZ. And we are not going to change the classification, are we? So, what I am saying is, and when we talk about cost-bene-

fit, I really see this debate, and we need to be very cognizant of it, and I know that I have some dear friends that would say we need to leapfrog, and there may be a real danger in leapfrogging, because when I look at what might be at stake, it may well be the future of the domestic automaker. And that has serious consequences.

It doesn't mean that we don't strive to improve and have realistic target dates, but the question before us is if we don't move prudently, do you believe that it is possible, if we fast forward without considering the impact and consequences of policy, that a major manufacturing base for the United States could well be jeopardized?

Ms. NASON. That absolutely is something we would want to avoid, Congressman, which is why we have put the draft legislation, and we are engaging in this conversation with you about the best way to do it.

Mr. GONZALEZ. The other thing, and we have had this discussion before, because I know you are depending on studies by other agencies and entities, such as the National Academy of Sciences and such, but you also depend on the EPA, right?

Ms. NASON. Yes.

Mr. GONZALEZ. And you depend on the EPA to establish the manner and method of the testing to establish CAFE standards, and to arrive at these numbers. Now, last time we had this discussion, you told me, and you can't speak for EPA, that EPA was in the process of retooling that test and making it more realistic.

Now, I am going to tell you this is all hearsay, I have no idea how they conduct it, but someone told me that the way they conduct this test to arrive at your 26, 27, or whatever the representation is on the sticker there, is that they drive the vehicle for 2 miles at 48 miles an hour, something to that effect.

Are you familiar with the present test? What is the status of any revision?

Ms. NASON. Yes, Congressman, and the last time we talked, EPA had not completed their revision of the test. It is something that I know they had not just groups like the National Academy of Sciences, but consumers were writing in to say they were not getting the numbers, as you say, the fuel efficiency, that they had seen on the sticker, during actual driving conditions.

EPA has completed that rulemaking, I believe, December, and they did make several important changes, which we have supported, that will help consumers get accurate information about—

Mr. GONZALEZ. It is amazing. I mean, we are looking at from the viewpoint of the consumer, but you as the Administrator, depending on these particular numbers, and the administration basing all sorts of assumptions on gas mileage that is being established by a test that does not accurately reflect what a vehicle gets in gas mileage.

I mean, that is my whole point, is we may have set a foundation by having the two categories, that has always been a fiction and not realistic, but we have to live with it, but surely, we can have a test that accurately gives you numbers on what you will predicate policy targets and goals, that are supposed to be attainable,

but they are not going to be attainable if realistically, we are not getting that kind of gas mileage out there.

And you might say, that is important for the consumer, but I would say that we are predicated policy on fiction again, and unless you and I, Congress, right, go to EPA and say how realistic are these numbers, should we be basing any policy assumptions on it, and someone just handed you something, and I take it that they might have something of interest there, and if not, I guess it must say when are we going to lunch, and I think it is going to be in a few minutes.

Doctor Lazear I really don't have any questions for you because I am afraid you will give me one of those answers that you gave Mr. Markey, which I more or less understood, but was not sufficient. But again, I want to thank both of you for your testimony today.

Mr. LAZEAR. Thanks a lot.

Mr. GONZALEZ. And I yield back.

Mr. BOUCHER. Thank you, Mr. Gonzalez. The Chair is pleased to recognize the gentleman from Mississippi, Mr. Pickering, for 5 minutes.

Mr. PICKERING. Thank you, Mr. Chairman.

Chairman Lazear, have you all looked, I know the administration has looked at different ways to encourage higher standards, and your proposal has that, but did you also look at ways that you could encourage individual consumers to get their older and less efficient cars off the road? For example, a resale tax credit that would encourage car owners with a older car, less efficient car, to be able to trade that in, get a resale tax credit, and then purchase a more efficient vehicle? Did you all look at that individual-based approach?

Mr. LAZEAR. I would say we looked at individual-based approaches, but not the specific one that you are talking about. In some sense, trading old cars for new cars comes about, in large part, as a reflection of the price mechanism. If things become expensive, if gasoline becomes expensive, and you have an old car that is a real gas guzzler, you might move in a direction of a new car, simply to save money. That would come about indirectly, but the kind of direct approach that you are talking about is not something that I looked at personally.

Mr. PICKERING. Then, and current standards are based on a split fleet analysis and assessments. Did you look at how you could do that on a unified basis?

Mr. LAZEAR. Again, we thought about the different attributes, I mean, you can think of the split fleet, in some sense, as being like a big attribute on which we base this. We believe that the Department of Transportation is better able to handle this in a much more sensible and gradual way, by using the standards that we have right now, and that was primarily the logic behind the proposal.

Mr. PICKERING. Would it make sense to move to a unified fleet?

Mr. LAZEAR. Go ahead.

Ms. NASON. Congressman, we have looked at that issue. One of the distinctions we have now is the light truck fleet is operating under a reformed, a changed CAFE structure, and the passenger

car is not. We don't have the authority to do that, so we left that issue. It would be something, I think, we might be interested in discussing at some point, but we thought it was important to give the manufacturers the opportunity to adjust to new CAFE under light truck, and hopefully, new CAFE under passenger car for some period of years, and then, we could have further conversations.

Mr. PICKERING. As far as domestic production and jobs, would there be any advantage to moving to a unified fleet versus a split fleet, or would it disadvantage domestic production and foreign investment, and other initiatives that we see now developing in the automotive sector?

Mr. LAZEAR. We don't see any direct relationship there. The issue, again, is how is this implemented, how are the attributes used, and how do they cut across different companies and different kinds of vehicles, and obviously, it will affect them in different ways depending on how it actually is implemented.

But there is no obvious kind of if we go this way, you are going to get more jobs than if you go that way. I don't think there is an automatic connection there.

Mr. PICKERING. And the last question is just one of overall context. As we look at different initiatives that would look at both our fuel efficiency and fuel security, for the energy security over the long term, and the climate change issues, the CO₂ emissions from the automotive, the automobiles nationally, how does that compare in its contribution to say housing or manufacturing? Do you all have data that gives you a breakdown of which each sector contributes, and how much?

Mr. LAZEAR. Yes. We certainly have a breakdown. The number that came up earlier was if we are just looking at automobiles. It is about 30 percent of the emissions. I am sorry. Go ahead.

Mr. PICKERING. And what would the housing be?

Mr. LAZEAR. I don't want to do this off of the top of my head. I just talked to one of my colleagues about this recently, Jim Connaughton, who is our, the administration's expert on that, and I just don't recall the exact number, but it is very significant.

Mr. PICKERING. Would it be a greater amount than the automobile contribution?

Mr. LAZEAR. I think it is about the same. Ann, do you have the numbers? Just bear with me here. OK. Here, we got it. OK, 40 percent in energy, 30 percent transportation, 20 percent industry, and 10 percent is households.

Mr. PICKERING. Repeat that one more time.

Mr. LAZEAR. Forty percent is from energy production, 30 percent is from transportation, 20 percent is from industry, and 10 percent is from the households. And obviously, those are approximate numbers, since we are giving you rounded to tens.

Mr. PICKERING. Yes. And this is my last question, Mr. Chairman, and do you have the breakdown between manmade greenhouse emissions, CO₂ emissions, versus naturally occurring?

Mr. LAZEAR. I don't have that with me. Again, I would have to check those numbers. That is sort of outside my lane, to be honest with you, and I could get that for you, but I don't have that on the top of my head.

Mr. PICKERING. Thank you, Mr. Chairman.

Ms. NASON. And just to clarify, Congressman, that 30 percent is all transportation, so it is about 60 percent, I believe, of the 30 percent would be cars and light trucks.

Mr. PICKERING. Thank you very much.

Mr. BOUCHER. Thank you, Mr. Pickering. The gentleman from Texas, Mr. Burgess, for 5 minutes.

Mr. BURGESS. Thank you, Mr. Chairman, and I apologize for being in and out. Wednesdays is always a busy day, even when you work five days a week.

Let me ask a question, and I apologize if it has already been covered, but on the Twenty in Ten paper that I have, it talks a little bit about the renewable fuel standard, expanding it to an alternative fuel standard, and includes within that ethanol, cellulosic ethanol, biodiesel methanol. Under the biodiesel part of that, can you expound upon that just a little bit for me? Either one of you.

Mr. LAZEAR. What specifically would you have in mind there?

Mr. BURGESS. Well, how large a role do you see for biodiesel in the future, going forward? What sort of support do you see from the administration? What do you anticipate from Congress? What things would you like to have, as far as promoting biofuels as a source for American energy?

Mr. LAZEAR. We believe that biofuels are certainly one of the areas in which we are going to see a lot of development, particularly biodiesel in the future. The President has put a significant amount of money into research on that, and we expect to see more of that coming over the next couple of years, and we hope you will support that. We think it is a promising area. As you know, the President believes that cellulosic ethanol and biodiesel are probably going to be the things that we see in the most, in the nearest future.

But again, the policy does not want to select one over another. The basic approach behind the policy is to allow the market to decide what is the most efficient way, what is the most efficient direction in which to go, and we are happy to see anything develop, as long as it is consistent with the President's policies of making us more secure, in terms of our energy.

So, if you had suggestions, specifics on that, we would welcome them. I think we have been thinking about them. We put out some proposals ourselves, but we don't have a monopoly on this, and if you had specific ideas, we would welcome hearing them.

Mr. BURGESS. When we passed our energy bill a couple of years ago, the tax credit or tax relief of \$1 a gallon on biofuels made from virgin stock, if you will, but fuel that was recycled, Colonel Sanders was only credited at 50 cents a gallon. Just seems to me to make sense to include that, those biofuels that are developed from what otherwise would be something that would go and clog our sewers and our landfills, and our water treatment plants, and I just know they have done a little bit of that, or maybe a great deal of that in my district, and it has been pretty well received by the restaurants and companies that would have grease to recycle, or fry oil to recycle, and again, I just think that is an opportunity that we might be missing, that perhaps we should embellish.

Now, I am a fan of the hybrid vehicle. I believe they are safe. I haven't had to replace a battery yet, so I might feel differently

then. I got it, again, to deal with issues of air quality, but then when gas prices went up so high, it gave me a feeling of moral superiority to be driving a hybrid, and I like that. Do you think the standards that we are talking about, that the administration is talking about, would increase the number of hybrids that are currently offered by American manufacturers? Because that has been one of the problems is the technology has largely come to us from overseas, and it would, I think it would benefit the country, that these were hybrids offered by American manufacturers. So, do you have any evidence of recent trends, and how we might anticipate this impacting the American market?

Ms. NASON. Thank you, Congressman.

We have seen, obviously, an increase, a growing penetration of the fleet overall, not just from overseas manufacturers, but from U.S.-based manufacturers and others, an increase in hybridization, offering alternative not just cars, but light truck hybrid vehicles. And I guess the best way to answer is we could see an increase.

One of the basic tenets of our proposal is to try to remain technology neutral, so that if there is a manufacturer who believes that dieselization, for example, clean diesel, is a better way to go, they can choose that path, and we are not limiting them. So, we wouldn't be requiring hybridization under the rulemaking, but we certainly acknowledge that at 4 percent, year over year, we would expect to see greater penetration in the fleet of hybrids and diesels. As the President noted, it is a heavy technology bet, but we think the technology is there.

Mr. BURGESS. Just one last question, then, on the trading of the credits.

Ms. NASON. Yes, sir.

Mr. BURGESS. I mean, do you really believe that Ford Motor Company is going to go to Honda, and say we want to buy some of your credits, and you really Honda is going to sell them to Ford? I mean, is this, has anybody explored this as a market-based strategy?

Mr. LAZEAR. Yes, we have explored that. We do believe that the most effective way to do this is to run it through a third party, so you wouldn't necessarily see Ford going to Honda to buy credits. What they would do is they would go to a market, and credits would trade, not only in the spot market, but also in futures. You could buy and sell and bank credits, and we believe that is probably the best way to implement the policy.

We also believe that, to the extent that the credit price goes up, firms will also occasionally opt to use the safety valve, and we think that is a very important feature of the program. It is essential that you have a safety valve, where firms can simply pay a fee, and pay it directly to the Government, to avoid having to bring in technologies that would be too costly and too disruptive. And that is part of the program. We think that is an important part of the program.

Mr. BURGESS. I would agree with that. I think I referenced the Yugo in my opening statement, and I have never driven a Yugo, but I have driven a Geo Metro on Texas freeways, and that does not fall into the category of highway safety.

Thank you.

Mr. BOUCHER. The time of the gentleman has expired. I am going to ask unanimous consent that we insert in the record the copy of the Wall Street Journal article that was referenced by Chairman Dingell in the course of his questions, and without objection, that is so ordered.

Mr. Markey, do you want to do a second round of questions?

Mr. MARKEY. Yes. Very much so. Very much so.

Mr. BOUCHER. We are expecting recorded votes very shortly on the floor, and it is about an hour's worth of votes.

I want to be agreeable. Our witnesses have been here for a long time. Can we do 3 minutes of questions?

Mr. MARKEY. Excellent. Whatever.

Mr. BOUCHER. We will recognize the gentleman from Massachusetts for 3 minutes, and then, if Mr. Burgess wants to be recognized, we will recognize him for 3 minutes. So now, you can see the light at the end of the tunnel here.

Mr. Markey.

Mr. MARKEY. Thank you, Mr. Chairman.

I wanted to refer back to what Mr. Barton said earlier about my comments being disingenuous, and because I think, again, he continually misses the point, that the United States only has 3 percent of the oil reserves in the world. We cannot drill our way out of this problem. Two-thirds of the oil reserves are in the Middle East. That is our biggest national security problem, and his whole idea that we are drilling our way out of it just defies geology.

We are a technological giant. We can take our automobiles, our SUVs, our planes, our utilities, our appliances, and revolutionize technologically our relationship with imported oil and other energy sources, and I think every time he says that, he clearly is demonstrating that he is missing the point about how much oil we have as reserves.

Mr. Lazear, I would like to move back to you quickly if I can, on this gas guzzler tax. Again, we don't have a tax imposed on a person who buys a gas guzzling SUV, but we have a gas guzzler tax that we impose on an automobile. If we are going to get this tax code correctly, don't you think that we should have the same tax on the same type of vehicle, if it is going to be something that is economically coherent, in terms of achieving a national public policy goal?

Mr. LAZEAR. I don't believe that bringing in additional taxes is the best way to go right now. I think the most efficient way for us to achieve our goals—

Mr. MARKEY. So, would you repeal the gas guzzler tax?

Mr. LAZEAR. Again, what I would say is that the policy that we have put forward—

Mr. MARKEY. No. As I say, it is an inconsistent policy. Should we impose a tax on, should we close the loophole so that a Hummer is covered, or should we just exempt Hummers and big gas guzzling vehicles? Which way would you go?

Mr. LAZEAR. The way I would go is the way that the President proposed right now, which is to take the current proposal, which built into it standards for CAFE.

Mr. MARKEY. OK, not to do anything. OK. I get it. The President won't do anything.

Let me ask you another question. If we pass legislation that has a 4 percent standard over the next 10 years, but it is mandatory, would you recommend a veto to the President, if it was mandatory?

Mr. LAZEAR. The President makes his own decisions about vetoes.

Mr. MARKEY. Yes. Ms. Nason, would you recommend a veto to the President?

Ms. NASON. I am not prepared today to issue a veto threat on behalf of the administration. That is the President's decision alone.

Mr. MARKEY. I would advise both of you that you should tell the President that from 1975 to 1986, we actually doubled the fuel economy standard from 13 to 27, and we actually backed out 2 million barrels of oil a day, and we went down to only 26 percent oil dependence, and if the President thinks that it is a national security issue, I would urge him not to veto a bill that did something that was actually more modest technologically than what we did as a country in 1975 and to 1986, when we responded to the last crisis. Thank you, Mr. Chairman.

Mr. BOUCHER. The time of the gentleman has expired.

Mr. MARKEY. Thank you, Mr. Chairman.

Mr. BOUCHER. Mr. Burgess.

Mr. BURGESS. Thank you, Mr. Chairman.

I, having purchased a vehicle that was subject to the gas guzzler tax, I have never been a big fan of that. On this credit that we are talking about, or the proposal that we are talking about from the administration, and the new attribute-based standards, the currently mandated average of 27.5 miles per gallon, would that be preserved?

Ms. NASON. We did not propose that as a backstop, Congressman. We have heard from some who have concern that we need to have some sort of a backstop in legislation, and to be frank, we couldn't find a way to write it without undoing some of the reform. The issue with 27.5 is some manufacturers are below it, and some are above it, so we didn't want to make the assumption that everyone was above the current 27.5. But having said that, we understand that there is a concern among many that we need to have some marker somewhere, and we would be happy to work with you on trying to write changes, if you have a proposal.

Mr. BURGESS. Is there, let me just ask you, is it more than just a theoretic concern that some fleets could end up with an average mile per gallon rating of less than 27.5?

Ms. NASON. If we are able to meet a 4 percent annual increase, then we could go well past 27.5.

Mr. BURGESS. So that, as a floor, really there is no danger of piercing that or penetrating that?

Ms. NASON. The danger, the concern that we have with doing it is it makes the assumption right now that all manufacturers are above—CAFE challenges are different for different manufacturers. For example, a small two-seater sports car has a much greater challenge, so specialty manufacturers may have greater CAFE challenges than others, which is why we want to be careful about where we would put a backstop. But we would be open to ideas.

Mr. BURGESS. Thank you, Mr. Chairman. With that, I will yield back.

Mr. BOUCHER. Thank you very much, Mr. Burgess.

And on behalf of the subcommittee, let me thank both witnesses for joining us here today. And Ms. Nason, I want to thank you in particular, because I understand you have laryngitis, and this has been something of a struggle for you today, but you have performed very well, and we appreciate your answer to all of your questions.

We will be having additional hearings on our climate change inquiry. In fact, additional hearings next week and throughout the month of March, and so, since there is no further business to come before this subcommittee today, this hearing stands adjourned.

Ms. NASON. Thank you very much.

[Whereupon, at 12:42 p.m., the subcommittee was adjourned.]
 [Material submitted for inclusion in the record follows:]

STATEMENT NICOLE R. NASON

Mr. Chairman, thank you for inviting me to discuss Corporate Average Fuel Economy standards (CAFE) for passenger cars.

Last month, the President announced in the State of the Union address his “20 in 10” proposal that would reduce domestic gasoline consumption by 20 percent in 2017. A key component of the President’s “20 in 10” plan is to significantly boost fuel economy standards for cars. Towards that end, earlier this month, at your request and that of Chairman Dingell, the administration forwarded draft legislation that would give the Secretary of Transportation the statutory authority to reform and raise fuel economy standards for passenger cars.

The Bush administration already has a history of reforming and raising fuel economy for light trucks. Consider our record: this administration has raised the CAFE standard for light trucks for seven consecutive years, from 2005 to 2011.

Our recent light truck rule not only will save a record amount of fuel, it also regulates for the first time fuel economy for some of the heaviest light trucks, such as the Hummer H2. This rule also boosted the CAFE target for some light trucks to a level that exceeds the congressionally-mandated passenger car standard of 27.5 miles per gallon.

While these are notable accomplishments, the method by which they were achieved is probably the most important. In its landmark 2002 study on CAFE by the National Academy of Sciences, the NAS found that while the CAFE program did fulfill its original goals, it contained flaws that were preventing the program from living up to its potential.

For example, one of the NAS criticisms was that the program concentrated most of the regulatory requirements on a few full line manufacturers. This resulted in some manufacturers who produced primarily smaller vehicles not being required to make any further improvements in fuel efficiency. Additionally, the study found that having a “one-size-fits-all” standard allowed some automakers to produce fleets that met the standard even though many of the cars in the fleets were relatively fuel inefficient. This meant that we were, and still are, losing fuel savings from a significant part of the fleet. Finally, and most disturbingly, the study estimated that CAFE probably had cost between 1,300 and 2,600 lives in one year alone, 1993, because the standards were structured in a way that enabled automakers to meet much of their compliance obligations by downsizing cars.

NHTSA carefully considered the NAS study, and methodically developed a new structure for light truck CAFE standards that addressed each of these criticisms.

This new system, called “Reformed CAFE,” is based on requiring automakers to achieve improved fuel economy not by downsizing, but by adding fuel-saving technologies. Basing CAFE standards on adding fuel-saving technology instead of downsizing vehicles has a number of benefits. First, by setting fuel economy targets for every size of vehicle, this ensures that vehicles small, medium and large have to improve fuel economy.

Second, under Reformed CAFE there is no longer an incentive for automakers to improve their fleet average by downsizing. Accordingly, no longer will raising the CAFE standard mean a decrease in safety.

Third, since Reformed CAFE demands greater fuel efficiency from every model of vehicle affected, every automaker will share the regulatory burden for improving fuel economy, not just a few.

Finally, the administration's draft bill contains a CAFE credit trading provision. The NAS study pointed out how the current CAFE system makes it more expensive than necessary to achieve a given level of fuel economy in the vehicle fleet. Because one company may find it less expensive than another company to increase the fuel economy of its fleet, there are further cost-savings to be gained from allowing credit trading across companies.

CAFE already allows a manufacturer to accumulate credits if its fleet mix exceeds the standard. These credits may be carried forward or "banked" and used to offset future CAFE deficits by the same manufacturer. Credit trading is a natural extension of this framework. Credit trading would be purely voluntary, and we believe it will help lower the industry's cost of complying with CAFE.

In 1975 when Congress wrote the original CAFE standard, it did so by taking the average fuel economy number for the fleet and doubling it over a 10-year period. Today, NHTSA can perform a much more sophisticated analysis on how to determine the CAFE standard. We can do this because we have the benefit of individualized data on the fuel-saving capabilities of each car.

Accordingly, there is no need to set an arbitrary fuel economy standard, there is no need to sacrifice safety for better fuel economy, and there is no reason why some auto companies have to shoulder nearly all the regulatory burden. Our light truck rule demonstrated that all of these problems can be overcome.

Mr. Chairman, the President indicated in his State of the Union address his desire to raise the fuel economy standard. We believe that having experts develop the standard, using sound science and hard data, in an open and reviewable rulemaking process, is the most responsible way to determine a new CAFE standard.

If Congress authorizes the Secretary to reform CAFE for passenger cars, we will immediately begin a rulemaking to boost passenger car fuel economy. If the administration's draft legislation is enacted soon, cars rolling off the assembly line for the 2010 model year will have to meet a higher CAFE standard.

Mr. Chairman, given NHTSA's successful experience with setting the fuel economy standard for light trucks, which comprise half the vehicle sold today, we believe we have demonstrated our capability to set balanced standards for passenger vehicles, given the authority for reform.

I would be pleased to answer any questions.

TESTIMONY OF EDWARD P. LAZEAR

Good morning Mr. Chairman and members of the committee. Thank you for giving me the opportunity to be here to discuss the President's plan to enhance energy security.

The President's plan has four pillars. The first two pillars focus directly on the President's goal of reducing the use of gasoline in the United States by 20 percent in ten years. First, the President has called for an increase in the supply of renewable and other alternative fuels by setting a mandatory alternative fuel standard to require 35 billion gallons of renewable and other alternative fuels in 2017, which is nearly five times the current requirement for 2012. Approximately three-quarters of the targeted reduction in gasoline would come through the alternative fuel standard. Second, the President believes that we should reduce our demand for fuel by reforming and modernizing the Corporate Average Fuel Economy (CAFE) standards for cars. Changes to CAFE standards account for the remaining quarter of saving necessary to meet the President's goal, potentially saving another 8.5 billion gallons per year by 2017. Third, the President has proposed additional funding for energy innovation and technology, including bio-energy research, and loan guarantees for cellulosic ethanol plants. Fourth, the President proposed doubling the capacity of the Strategic Petroleum Reserve to enhance our ability to deal with severe supply disruptions caused by natural disasters or a terrorist attack to the supply chain.

The President believes that bold steps are warranted. Improving our energy security is a goal on which we can all agree. To do this, he has outlined a variety of measures that will diversify our energy supply and increase energy efficiency. The 20-in-10 plan was designed with these goals in mind. Additionally, the plan undertakes to accomplish these goals in an environmentally sensitive way.

Most important, the President has made clear that we must accomplish these goals without damaging the American economy. This is foremost in his mind, especially because the market, unfettered by government, is the most effective driver of innovations that strengthen energy security. Changes in prices create the incentives necessary for scientists, farmers, industry leaders and entrepreneurs to find the means to diversify our fuel supply and increase efficiency. As such, the policies the President has proposed—while bold—are not Draconian. The proposals build on ex-

isting programs and the reforms allow for American companies to comply with the targets in ways that will not compromise their ability to compete internationally.

Two principles are important when evaluating these proposals: technology neutrality and flexibility. The President's alternative fuel proposal builds on the existing renewable fuel standard to include virtually all alternatives to gasoline rather than just renewable fuels. This design feature helps to ensure the Government is not picking winners and losers in the marketplace, a task for which it is ill-suited. Additionally, there is flexibility embedded in both the alternative fuel standard and the CAFE proposals so that significant distortions to the economy can be avoided. The proposed alternative fuel standard includes two "safety valves" one through administrative discretion, one automatic—that would limit the economic costs. Furthermore, discretion is given to the Secretary of Transportation who can alter CAFE targets in ways that are compatible with preserving safety, technological developments, and cost-benefit analysis. These provisions prevent a system on automatic-pilot from taking us down unanticipated paths that are inconsistent with the goals we set. It means that we can be responsive to uncertain technology developments and adjust our standards as the market determines.

The CAFE provision also extends the existing credit framework by allowing credits to be traded, granting manufacturers additional flexibility and lowering their costs. Finally, as my colleague Nicole Nason explains in her testimony, the President's call for an attribute-based CAFE system for cars would help address both safety and distributional concerns.

By remaining open to new technologies and ensuring flexibility, the policies proposed by the President have the virtue that they cause minimal economic disruption, yet yield the promise of moving us toward a worthy goal. I welcome your questions.

